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

FORM 10-Q

(Mark One)

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2023

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from _____ to _____

Commission File Number: 001-36138

AYALA PHARMACEUTICALS, INC.
(Exact Name of Registrant as Specified in its Charter)

Delaware	02-0563870
(State or other jurisdiction of incorporation)	(IRS Employer Identification No.)
9 Deer Park Drive, Suite K-1 Monmouth Junction, NJ	08852
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (609) 452-9813

(Former name, former address and former fiscal year, if changed since last report):

Securities registered pursuant to Section 12(b) of the Act: None.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large Accelerated Filer	☐	Accelerated Filer	☐
Non-accelerated Filer	☒	Smaller Reporting Company	☒
Emerging growth company	☐		

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

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

The registrant had 4,838,321 shares of common stock, par value $0.001 per share, outstanding as of August 10, 2023.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements. All statements other than statements of historical facts contained in this Quarterly Report, including without limitation statements relating to our development of AL101 and AL102, our ability to continue as a going concern, our future capital needs and our need to raise additional funds, our planned combination with Biosight Ltd., the promise and potential impact of our preclinical or clinical trial data, the timing of and plans to initiate additional clinical trials of AL101 and AL102, and the timing and results of any clinical trials or readouts, are forward-looking statements. These statements involve known and unknown risks, uncertainties and other important factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements.

In some cases, you can identify forward-looking statements by terms such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “could,” “intend,” “target,” “project,” “contemplate,” “believe,” “estimate,” “predict,” “potential”, or “continue” or the negative of these terms or other similar expressions, although not all forward-looking statements are identified by these terms or expressions. The forward-looking statements in this Quarterly Report are only predictions. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our business, financial condition and results of operations. These forward-looking statements speak only as of the date of this Quarterly Report and are subject to a number of important factors that could cause actual results to differ materially from those in the forward-looking statements, including the factors described under the sections in this Quarterly Report titled and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Moreover, we operate in an evolving environment. New risk factors and uncertainties may emerge from time to time, and it is not possible for management to predict all risk factors and uncertainties.

You should read this Quarterly Report and the documents that we reference in this Quarterly Report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by these cautionary statements. Except as required by applicable law, we do not plan to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events, changed circumstances or otherwise.

PART I—FINANCIAL INFORMATION

Item 1: Financial Statements

AYALA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	June 30, 2023	December 31, 2022
	(Unaudited)	
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,079	$ 2,408
Short-term restricted bank deposits	106	110
Trade receivables	-	234
Prepaid expenses and other current assets	2,371	436
Total current assets	9,556	3,188
LONG-TERM ASSETS:		
Deferred issuance costs		1,953
Operating lease right of use asset	1,390	1,462
Intangible assets, net	115	-
Property and equipment, net	882	960
Other assets	$ 208	$ 206
Total long-term assets	2,595	4,581
Total assets	**$ 12,151**	**$ 7,769**
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Trade payable	$ 4,420	$ 4,080
Operating lease liabilities	542	419
Accrued expenses	1,905	551
Accrued payroll and employee benefits	1,401	994
Other accounts payable	159	169
Total current liabilities	8,427	6,213
LONG TERM LIABILITIES:		
Long-term warrant liability	67	-
Uncertain tax position	1,648	1,323
Long-term operating lease liabilities	1,000	1,332
Total long-term liabilities	**$** 2,715	$ 2,655
STOCKHOLDERS' EQUITY:		
Common Stock of $0.001 par value per share; 170,000,000 and 37,480,000 shares authorized on June 30, 2023 and on December 31, 2022, respectively; 4,838,321 and 2,775,906 shares issued and on June 30, 2023 and December 31, 2022, respectively; 4,779,826 and 2,695,067 shares outstanding at June 30, 2023 and December 31, 2022, respectively.*	$ 5	$ 3
Additional paid-in capital*	166,218	148,052
Accumulated deficit	(165,214)	(149,154)
Total stockholders' equity	1,009	(1,099)
Total liabilities and stockholders' equity	**$** 12,151	**$ 7,769**

See accompanying notes to unaudited condensed consolidated financial statements.

* Common Stock, additional paid-in capital and per share data have been retroactively adjusted for the impact of the merger, see note 1. 1

AYALA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except share & per share amounts)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenues from licensing agreement and others	$ 9	$ 38	$ 13	$ 496
Cost of services	(9)	(38)	(13)	(406)
Gross profit	—	—	—	90
Operating expenses:				
Research and development	5,723	5,580	12,988	13,083
General and administrative	2,763	2,272	7,367	4,705
Operating loss	(8,486)	(7,852)	(20,355)	(17,698)
Financial (loss) income, net	(86)	(42)	215	40
Loss before income tax	(8,572)	(7,894)	(20,140)	(17,658)
Taxes on income	(127)	(214)	4,080	(403)
Net loss	(8,699)	(8,108)	(16,060)	(18,061)
Net loss per share attributable to common stockholders, basic and diluted	$ (1.82)	$ (2.83)	$ (3.51)	$ (6.30)
Weighted average common shares outstanding, basic and diluted*	**4,776,344**	**2,869,612**	**4,580,661**	**2,868,499**

See accompanying notes to unaudited condensed consolidated financial statements.

* Common Stock, additional paid-in capital and per share data have been retroactively adjusted for the impact of the merger, see notes 1. 2

AYALA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)
(In thousands, except share and per share amounts)

	Common Stock**		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital**	Deficit	Equity
Balance as of December 31, 2021	2,615,360	$ 3	$ 145,296	$ (111,141)	$ 34,158
Share based compensation	4,438	-	1,398	-	1,398
Proceeds from issuance of common stock, net of issuance cost of $3	918	*	44	-	44
Net loss	-	-	-	(18,061)	(18,061)
Balance as of June 30, 2022	**2,620,716**	**$ 3**	**146,738**	**$ (129,202)**	**$ 17,539**
Balance as of December 31, 2022	**2,695,067**	**3**	**148,052**	**(149,154)**	**(1,099)**
Share based compensation	22,616	-	1,219	-	1,219
Issuance of shares upon Merger, net of issuance costs of $3,153	2,062,143	2	16,947	-	16,949
Net loss	-	-	-	(16,060)	(16,060)
Balance as of June 30, 2023	**4,779,826**	**$ 5**	**$ 166,218**	**$ (165,214)**	**$ 1,009**

	Common Stock**		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital**	Deficit	Equity
Balance as of March 31, 2022	2,618,497	$ 3	$ 145,983	$ (121,094)	$ 24,892
Share based compensation	2,219	-	755	-	755
Net loss	-	-	-	(8,108)	(8,108)
Balance as of June 30, 2022	**2,620,716**	**$ 3**	**146,738**	**$ (129,202)**	**$ 17,539**
Balance as of March 31, 2023	**4,772,740**	**5**	**166,185**	**(156,515)**	**9,675**
Share based compensation	7,086	-	33	-	33
Net loss	-	-	-	(8,699)	(8,699)
Balance as of June 30, 2023	**4,779,826**	**$ 5**	**$ 166,218**	**$ (165,214)**	**$ 1,009**

See accompanying notes to unaudited condensed consolidated financial statements.

* Represents an amount lower than $1.
** All of the Common Stocks and per share data have been retroactively adjusted for the impact of the merger, see notes 1. 3

AYALA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
(Unaudited)

(In thousands)

	Six Months Ended	
	June 30, 2023	**June 30, 2022**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (16,060)	$ (18,061)
Adjustments to reconcile net loss to net cash used in operating activities:		
Shared based compensation	1,219	1,398
Depreciation and Amortization	99	81
Asset write-downs	28	-
Remeasurement of long term warrant liability	(136)	-
Loss from exchange rate fluctuation	41	-
(Increase) decrease in prepaid expenses and other assets	(1,635)	321
Decrease (increase) in trade receivables	234	(262)
Increase in trade payables	588	40
Decrease in operating lease right-of-use assets	137	171
Decrease in operating lease liabilities	(275)	(439)
Decrease in accrued expenses	(224)	(15)
Increase (decrease) in accrued payroll and employee benefits	367	(578)
Changes in uncertain tax position	325	387
Decrease in other accounts payable	(10)	(50)
Net cash used in operating activities	(15,302)	(17,007)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash used in investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of shares, net of issuance cost of $3	$ -	$ 44
Issuance of shares upon merger, net of issuance costs	20,001	-
Net cash provided by financing activities	$ 20,001	$ 44
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(41)	-
Increase (decrease) in cash and cash equivalents and restricted cash	4,658	(16,963)
Cash and cash equivalents and restricted cash at beginning of the period	2,724	37,339
Cash and cash equivalents and restricted cash at end of the period	$ 7,382	20,376
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Lease liabilities arising from new right-of-use assets	-	537
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Tax paid in cash	$ 284	$ 182

Reconciliation of cash, cash equivalents and restricted cash

	June 30, 2023	**June 30, 2022**
Cash and cash equivalents	$ 7,079	$ 20,059
Restricted bank deposits	106	111
Restricted bank deposits in other assets	197	206
Cash and cash equivalents and restricted cash at end of the period	$ 7,382	$ 20,376

See accompanying notes to unaudited condensed consolidated financial statements

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES

In these financial statements, unless otherwise stated or the context otherwise indicates, references to "New Ayala," the "Company," "we," "us," "our" and similar references refer to Ayala Pharmaceuticals, Inc., a Delaware corporation, which prior to the change of its name effected on January 19, 2023, was known as Advaxis, Inc. The name change was affected in connection with the Merger, as described below. References to "former Advaxis" refer to our company solely in the period prior to the Merger.

Prior to the Merger, we were a clinical-stage biotechnology company focused on the development and commercialization of proprietary *Listeria monocytogenes* ("*Lm*")-based antigen delivery products. These efforts utilized our *Lm* platform directed against tumor-specific targets in order to engage the patient's immune system to destroy tumor cells. Through a license from the University of Pennsylvania, we have exclusive access to this proprietary formulation of attenuated *Lm* called *Lm* Technology™.

Following the Merger, we are primarily a clinical-stage oncology company focused on developing and commercializing small molecule therapeutics for patients suffering from rare and aggressive cancers, primarily in genetically defined patient populations. Our differentiated development approach is predicated on identifying and addressing tumorigenic drivers of cancer, through a combination of our bioinformatics platform and next-generation sequencing to deliver targeted therapies to underserved patient populations. Our current portfolio of product candidates, AL101 and AL102, targets the aberrant activation of the Notch pathway using gamma secretase inhibitors. Gamma secretase is the enzyme responsible for Notch activation and, when inhibited, turns off the Notch pathway activation. Aberrant activation of the Notch pathway has long been implicated in multiple solid tumor and hematological cancers and has often been associated with more aggressive cancers. In cancers, Notch is known to serve as a critical facilitator in processes such as cellular proliferation, survival, migration, invasion, drug resistance and metastatic spread, all of which contribute to a poorer patient prognosis. AL101 and AL102 are designed to address the underlying key drivers of tumor growth, and our initial Phase 2 clinical data of AL101 suggest that our approach may address shortcomings of existing treatment options. We believe that our novel product candidates, if approved, have the potential to transform treatment outcomes for patients suffering from rare and aggressive cancers. We also continue to conduct certain operations relating to former Advaxis' operations as a clinical-stage biotechnology company focused on the development and commercialization of proprietary *Listeria monocytogenes* ("*Lm*")-based antigen delivery products. These efforts are primarily focused on the development of ADXS-504, a *Lm*-based therapy for early-stage prostate cancer.

In 2017, the Company entered into an exclusive worldwide license agreement with respect to AL101 and AL102. See note 5.

Merger with Ayala Pharmaceuticals, Inc.

On October 18, 2022, the Company, which at the time was named Advaxis, Inc., entered into a Merger Agreement (the "Merger Agreement"), with an entity then known as Ayala Pharmaceuticals, Inc., with the Ayala Pharmaceuticals, Inc. shortly prior to the closing of the merger in January 2023 changing its name to Old Ayala, Inc., ("Old Ayala") and Doe Merger Sub, Inc. ("Merger Sub"), a direct, wholly-owned subsidiary of the Company. Under the terms of the Merger Agreement, Merger Sub merged with and into Old Ayala, with Old Ayala continuing as the surviving company and a wholly-owned subsidiary of the Company (the "Merger"). Immediately after the Merger, former Advaxis stockholders as of immediately prior to the Merger own approximately 37.5% of the outstanding shares of the combined Company and former Old Ayala shareholders own approximately 62.5% of the outstanding shares of the combined Company.

At the effective time of the Merger (the "Effective Time"), each share of share capital of Old Ayala issued and outstanding immediately prior to the Effective Time was converted into the right to receive a number of shares of the Company's common stock, par value $0.001 per share, equal to the exchange ratio, 0.1874 shares of the Company's common stock per Old Ayala share.

The Merger has been accounted for as a reverse merger with Old Ayala as the accounting acquirer and former Advaxis as the accounting acquiree. In identifying Old Ayala as the accounting acquirer, the companies considered ASC 805-10-55 including the structure of the Merger, relative outstanding share ownership at closing and the composition of the combined Company's board of directors and senior management. The financial reporting reflects the accounting from the perspective of Old Ayala ("accounting acquirer"), except for the legal capital, which has been retroactively adjusted to reflect the capital of former Advaxis ("accounting acquiree") in accordance with ASC 805-40-45. As such, the historical financial information presented is that of Old Ayala as the accounting acquirer in the Merger.

Because most of the value of the assets of former Advaxis was in cash and cash equivalents, the Merger is treated primarily as a financing transaction for accounting purposes with a small component as a business acquisition. Therefore, no gain or loss is recorded as a result of the Merger. Old Ayala's transaction costs were capitalized and offset against the shareholder's equity upon the Merger, and former Advaxis' transaction costs were expensed as merger costs. The consolidated financial statements from the closing date of the Merger include the assets, liabilities, and results of operations of the combined company.

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES (continued):

Fair Value Allocation

The following sets forth the fair value of acquired identifiable assets and assumed liabilities of former Advaxis which includes preliminary adjustments to reflect the fair value of intangible assets acquired (in thousands) as of January 19, 2023:

	Amounts
Cash and cash equivalents	$ 22,539
Prepaid expenses and other current assets	300
Property and equipment, net	34
Intangible assets	130
Operating right-of-use asset	5
Other assets	11
Total assets	23,019
Common stock warrant liability	(203)
Other current liabilities and trade payables	(2,714)
Total liabilities	(2,917)
Net assets acquired	$ 20,102

The fair value estimate for all identifiable assets and liabilities assumed is preliminary and is based on assumptions that market participants would use in pricing an asset, based on the most advantageous market for the asset (i.e., its highest and best use). This preliminary fair value estimate could include assets that are not intended to be used, may be sold, or are intended to be used in a manner other than their best use. Such estimates are subject to change during the measurement period, which is not expected to exceed one year. Any adjustments identified during the measurement period will be recognized in the period in which the adjustments are determined.

The Company recognized intangible assets related to the Merger, which consist of the Patents and License agreements valued at $130 thousand with an estimated useful life of four years. Acquired identifiable finite-lived intangible assets are amortized on a straight-line basis over the estimated useful lives of the assets. The basis of amortization approximates the pattern in which the assets are utilized, over their estimated useful lives. The Company routinely reviews the remaining estimated useful lives of finite-lived intangible assets. In case the Company reduces the estimated useful life for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life.

These intangible assets are classified as Level 3 measurements within the fair value hierarchy.

The following unaudited table provides certain pro forma financial information for the Company as if the Merger occurred on January 1, 2022 (in thousands except per share amounts):

	Six months ended June 30, 2023	Six months ended June 30, 2022*
	Unaudited	Unaudited
Revenue	$ 13	$ 746
Net loss	$ (15,591)	$ (23,405)

	Three months ended June 30, 2023	Three months ended June 30, 2022*
	Unaudited	Unaudited
Revenue	$ 9	$ 288
Net loss	$ (8,699)	$ (13,087)

*The pro forma amounts above are derived from historical numbers of the Company and Old Ayala. The results of operations for the three and six months ended June 30, 2022 include the operations of the Company for the period from January 31, 2022 to April 31, 2022 and November 1, 2021 to April 31, 2022, respectively which was the first six months of fiscal year 2022 prior to the change in our fiscal year end from October 31 to December 31, which change was effected in January 2023.

The unaudited pro forma results have been prepared based on estimates and assumptions, which we believe are reasonable; however, they are not necessarily indicative of the consolidated results of operations had the acquisition occurred on January 1, 2022, or of future results of operations.

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES (continued):

Going Concern

The Company has incurred recurring losses since inception as a research and development organization and has an accumulated deficit of $165.2 million as of June 30, 2023. For the six months ended June 30, 2023, the Company used approximately $15.3 million of cash in operations. The Company has relied on its ability to fund its operations through public and private equity financings. The Company expects operating losses and negative cash flows to continue at significant levels in the future as it continues its clinical trials. As of June 30, 2023, the Company had approximately $7.1 million in cash and cash equivalents, which, without additional funding, the Company believes will not be sufficient to meet its obligations within the next twelve months from the date of issuance of these condensed consolidated financial statements. The Company plans to continue to fund its operations through public or private debt and equity financings, but there can be no assurances that such financing will continue to be available to the Company on satisfactory terms, or at all. If the Company is unable to obtain funding, the Company would be forced to delay, reduce, or eliminate its research and development programs, which could adversely affect its business prospects, or the Company may be unable to continue operations. As such, those factors raise substantial doubt about the Company's ability to continue as a going concern.

The unaudited condensed consolidated financial statements have been prepared assuming that the Company will continue as a going concern. Therefore, the unaudited condensed consolidated financial statements for the six months ended June 30, 2023, do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company's ability to continue as a going concern.

Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States ("GAAP") for interim financial information. Accordingly, they do not include all the information and notes required by GAAP for annual financial statements. In the opinion of management, all adjustments (of a normal recurring nature) considered necessary for a fair statement of the results for the interim periods presented have been included. Operating results for the interim period are not necessarily indicative of the results that may be expected for the full year.

These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements for the year ended December 31, 2022, included in the Annual Report on Form 10-K of Old Ayala filed for the year ended December 31, 2022 (the "Old Ayala 2022 Form 10-K") with the Securities and Exchange Commission (the "SEC") on March 31, 2023 and the Annual Report on Form 10-K of the Company filed for the year ended October 31, 2022 (the "Form 10-K") with the SEC on February 10, 2023. The Company's significant accounting policies have not changed materially from those included in note 2 of the Company's consolidated financial statements for the year ended December 31, 2022, included in the Old Ayala 2022 Form 10-K and the Form 10-K, unless otherwise stated.

Use of estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with U.S. GAAP requires management to make estimates, judgments and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and accompanying notes. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the unaudited condensed consolidated financial statements. Actual results could differ from those estimates.

NOTE 1—SIGNIFICANT ACCOUNTING POLICIES (continued):

Net Loss per Share

Basic loss per share is computed by dividing the net loss by the weighted average number of shares of Common Stock outstanding during the period. Diluted loss per share is computed by dividing the net loss by the weighted average number of shares of Common Stock outstanding together with the number of additional shares of Common Stock that would have been outstanding if all potentially dilutive shares of Common Stock had been issued. Diluted net loss per share is the same as basic net loss per share in periods when the effects of potentially dilutive shares of Common Stock are anti-dilutive.

All of the Common Stock, exercise prices and per share data have been retroactively adjusted for the impact of the Merger. The shares have been adjusted to the merger ratio of 0.1874.

Fair value of financial instruments

The Company measures and discloses the fair value of financial assets and liabilities in accordance with ASC Topic 820, "Fair Value Measurement." Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Restricted bank deposits, trade receivables, trade payables are stated at their carrying value, which approximates fair value due to the short time to the expected receipt or payment date. Warrants liabilities are stated at fair value on a recurring basis.

Recently Adopted Accounting Pronouncements

In June 2016, the FASB issued ASU No. 2016-13 (Topic 326), Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments, which replaces the existing incurred loss impairment model with an expected credit loss model and requires a financial asset measured at amortized cost to be presented at the net amount expected to be collected. The new guidance was effective for the Company on January 1, 2023 and the adoption did not have a material impact on the Company's consolidated financial statements.

In October 2021, the Financial Accounting Standards Board ("FASB") issued ASU No. 2021-08, Accounting for Contract Assets and Contract Liabilities from Contracts with Customers (Topic 805). This ASU requires an acquirer in a business combination to recognize and measure contract assets and contract liabilities (deferred revenue) from acquired contracts using the revenue recognition guidance in Topic 606. At the acquisition date, the acquirer applies the revenue model as if it had originated the acquired contracts. The ASU is effective for annual periods beginning after December 15, 2022, including interim periods within those fiscal years. The Company adopt ASU 2021-08 on January 1, 2023, and will apply this new guidance to all business combinations consummated subsequent to this date. Currently, this ASU has no impact on the Company's consolidated financial statements.

NOTE 2—REVENUES

The Company recognizes revenue in accordance with ASC Topic 606, Revenue from Contracts with Customers, which applies to all contracts with customers.

At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services promised within the contract and determines those that are performance obligations and assesses whether each promised good or service is distinct.

Revenue is recognized when control of the promised goods or services is transferred to the customers, in an amount that reflects the consideration the Company expects to be entitled to receive in exchange for those goods or services.

In December 2018, the Company entered into an evaluation, option and license agreement (the "Novartis Agreement") with Novartis International Pharmaceutical Limited ("Novartis") for which the Company is paid for its research and development costs.

The Company concluded that there is one distinct performance obligation under the Novartis Agreement: Research and development services, an obligation which is satisfied over time.

Revenue associated with the research and development services in the amount of approximately $13 and $9 thousands was recognized in the six and three months ended June 30, 2023, respectively.

Revenue associated with the research and development services in the amount of approximately $496 and $38 thousands was recognized in the six and three months ended June 30, 2022, respectively.

The Company concluded that progress towards completion of the research and development performance obligation related to the Novartis Agreement is best measured in an amount proportional to the expenses relative to the total estimated expenses. The Company periodically reviews and updates its estimates, when appropriate, which may adjust revenue recognized for the period. Most of the company's revenues derive from the Novartis Agreement, for which revenues consist of reimbursable research and development costs. On June 2, 2022, Novartis informed the Company that Novartis does not intend to exercise its option to obtain an exclusive license for AL102, thereby terminating the agreement.

NOTE 3—TAX

The Company has reviewed the tax positions taken, or to be taken, in its tax returns for all tax years currently open to examination by a taxing authority. As of June 30, 2023 and December 31, 2022, the Company has recorded an uncertain tax position liability exclusive of interest and penalties of $1.6 million and $1.3 million, respectively, which were classified as other accounts payable. As of June 30, 2023 and December 31, 2022, the Company accrued interest related to uncertain tax positions of $90 thousand and $79 thousand, respectively. The interest is recorded as part of financial expenses. These uncertain tax positions would impact the Company's effective tax rate, if recognized. A reconciliation of the Company's unrecognized tax benefits is below:

	Six months Ended June 30, 2023	Year ended December 31, 2022
	(In thousands)	(In thousands)
Uncertain tax position at the beginning of the period	$ 1,323	$ 858
Additions for uncertain tax position of prior years (foreign exchange and interest)	24	36
Subtractions for tax positions of previous period	(7)	
Additions for tax positions of current period	308	429
Uncertain tax position at the end of the period	$ 1,648	$ 1,323

The Company files U.S. federal, various U.S. state and Israeli income tax returns. The associated tax filings remain subject to examination by applicable tax authorities for a certain length of time following the tax year to which those filings relate. In the United States and Israel, the 2018 and subsequent tax years remain subject to examination by the applicable taxing authorities as of June 30, 2023.

In March 2023, the Company received $4,675 thousand of proceeds from the sale of our Net Operating Losses ("NOLs") under the State of New Jersey NOL Transfer Program. This was recorded as a tax benefit and offset against income tax expense in the consolidated statement of operations.

NOTE 4 – COMMON STOCK PURCHASE WARRANTS AND WARRANT LIABILITY

Common Stock Rights

The Common Stock Rights confer upon the holders the right to vote in annual and special meetings of the Company, and to participate in the distribution of the surplus assets of the Company upon liquidation of the Company.

Warrants

As of June 30, 2023, there were 465,271 warrants outstanding of which 290,206 were exercisable warrants to purchase shares of our common stock, with exercise prices ranging from $2.79 to $224.00 per share. As of December 31, 2022, there were outstanding and exercisable warrants to purchase 337,320*, shares of our common stock with exercise prices ranging from $0.05* to $96.58* per share. Information on the outstanding warrants as of June 30, 2023 is as follows:

Exercise Price	Number of Shares Underlying Warrants	Expiration Date	Type of Financing
$ 2.79	879	September 2024	September 2018 Public Offering
$ 224.00	4,092	July 2024	July 2019 Public Offering
$ 28.00	57,230	November 2025	November 2020 Public Offering
$ 56.00	140,552	April 2026	April 2021 Registered Direct Offering (Accompanying Warrants)
$ 56.00	175,065	5 years after the date such warrants become exercisable, if ever	April 2021 Private Placement (Private Placement Warrants)
$ 96.58	87,453*	February 2024	February 2021 Private Placement (issued by Old Ayala)
Grand Total	465,271		

* Exercise price and warrant numbers of Old Ayala's warrants have been retroactively adjusted for the impact of the Merger, see note 1.

NOTE 4 – COMMON STOCK PURCHASE WARRANTS AND WARRANT LIABILITY (continued):

As of June 30, 2023, the Company had 289,327 of its total 465,271 outstanding warrants classified as equity (equity warrants). As of December 31, 2022, all outstanding warrants were classified as equity (equity warrants). At issuance, equity warrants are recorded in Additional Paid-In Capital in the shareholders equity section of the consolidated balance sheets.

A summary of warrant activity was as follows (in thousands, except share and per share data):

	Shares		Weighted Average Exercise Price	Weighted Average Remaining Contractual Life In Years	Aggregate Intrinsic Value
Outstanding and exercisable warrants at December 31, 2022	337,320		$ 25.08	1.14	$ 86,613
Issuance of warrants upon Merger	377,818	*	53.45*		
Exercised	(249,867)	*	0.05*		
Outstanding warrants at June 30, 2023	465,271	*	$ 61.56*	3.15	$ -
Exercisable warrants at June 30, 2023	290,206		$ 64.92	2.29	$ -

* Exercise price and warrant numbers have been retroactively adjusted for the impact of the Merger, see note 1.

Shares Issued for Warrants Exercises

During the six months ended June 30, 2023, pre-funded warrant holders from the Old Ayala's February 2019 Offering automatically net exercised 249,867 warrants in exchange for 246,192 shares of the Company's common stock in accordance with their terms.

Warrant Liability

The warrants issued in the April 2021 Private Placement will become exercisable only on such day, if ever, that is 14 days after the Company files an amendment to the Company's Amended and Restated Certificate of Incorporation to increase the number of authorized shares of common stock, $0.001 par value per share from 170,000,000 shares to 300,000,000 shares. These warrants expire five years after the date they become exercisable. As of June 30, 2023, such an amendment has not been filed, and thus the warrants have not become exercisable. Accordingly, based on certain indemnification provisions of the securities purchase agreement, the Company concluded that liability classification is warranted. The Company utilized the Black Scholes model to calculate the fair value of these warrants at the merger and reporting date.

The September 2018 Public Offering warrants contain a down round feature, except for exempt issuances as defined in the warrant agreement, in which the exercise price would immediately be reduced to match a dilutive issuance of common stock, options, convertible securities and changes in option price or rate of conversion. As of June 30, 2023, the down round feature was triggered five times and the exercise price of the warrants were reduced from $1,800.00 to $2.79. The warrants require liability classification as the warrant agreement requires the Company to maintain an effective registration statement and does not specify any circumstances under which settlement in other than cash would be permitted or required. In addition, the contract contains an unpermitted adjustment to the exercise price, and therefore precludes an equity classification. As a result, net cash settlement is assumed, and liability classification is warranted. The Company utilized the Black Scholes model to calculate the fair value of these warrants at the merger and reporting date.

In measuring the warrant liability for the warrants issued in the April 2021 Private Placement and September 2018 Public Offering at June 30, 2023, the Company used the following inputs in its Black Scholes model:

	June 30, 2023	January 19, 2023
Exercise Price	$ 55.73	$ 55.73
Stock Price	$ 1.00	$ 2.95
Expected Term	4.98 years	4.98 years
Volatility %	125%	117%
Risk Free Rate	4.14%	3.60%

For the six months ended June 30, 2023, the Company reported a gain of approximately $136 due to changes in the fair value of the warrant liability.

NOTE 5—FAIR VALUE MESUREMENTS

The company did not have any fair value measurements in June 30, 2022 :. The following table provide the liabilities carried at fair value measured on a recurring basis as of June 30, 2023

	Fair Value Measured at June 30, 2023			
	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value:				
Long term warrant liablity	$ -	$ -	$ 67	$ 67
Total financial liabilities at fair value	**$ -**	**$ -**	**$ 67**	**$ 67**

NOTE 6—COMMITMENTS AND CONTINGENT LIABILITIES

In January 2019, the Company's wholly owned Israeli subsidiary, Ayala-Oncology Israel Ltd. (the "Subsidiary"), signed a new lease agreement. The term of the lease is for 63 months and includes an option to extend the lease for an additional 60 months. As part of the agreement, the lessor also provided the Company an amount of approximately $0.5 million paid in arrears for leasehold improvements. The amount was recorded as an incentive and is taken into account when computing the Right of Use ("ROU") asset.

The Subsidiary obtained a bank guarantee in the amount of approximately $0.2 million for its new office lease agreement.

On March 25, 2021, the Company entered into a one-year lease agreement for its corporate office/lab with base rent of approximately $29 per year, plus other expenses. In September 2021, the Company exercised its option to renew the lease, extending the lease term until March 31, 2023. On March 25, 2023 the Company signed an extension up to March 31, 2025, with base rent of approximately $36 per year. The Company recorded an ROU asset and liability of approximately $65.

The Company has the following operating ROU assets and lease liabilities:

	June 30, 2023	
	ROU assets	Lease liabilities
Offices	$ 1,266	$ 1,454
Cars	124	88
Total operating leases	**$ 1,390**	**$ 1,542**

	December 31, 2022	
	ROU assets	Lease liabilities
Offices	$ 1,273	$ 1,612
Cars	189	139
Total operating leases	**$ 1,462**	**$ 1,751**

	June 30, 2023	December 31, 2022
	Lease liabilities	Lease liabilities
Current lease liabilities	$ 542	$ 419
Non-current lease liabilities	1,000	1,332
Total lease liabilities	**$ 1,542**	**$ 1,751**

The following table summarizes the lease costs recognized in the condensed consolidated statement of operations:

	For six months ended June 30, 2023	For six months ended June 30, 2022
Operating lease cost	$ 269	$ 221
Variable lease cost	6	10
Total lease cost	$ 275	$ 231

	For three months ended June 30, 2023	For three months ended June 30, 2022
Operating lease cost	$ 143	$ 109
Variable lease cost	2	-
Total lease cost	**$** 145	$ 109

As of June 30, 2023, the weighted-average remaining lease term and weighted-average discount rate for operating leases are 2.7 years and 7.4%, respectively.

NOTE 6—COMMITMENTS AND CONTINGENT LIABILITIES (continued):

The following table summarizes the future payments of the Company for its operating lease liabilities:

	June 30, 2023
2023 (from July 1)	$ 225
2024	380
2025	318
2026	308
2027	308
After 2027	411
Total undiscounted lease payments	$ 1,950
Less: Interest	408
Total lease liabilities – operating	**$ 1,542**

Asset Transfer and License Agreement with Bristol-Myers Squibb Company.

In November 2017, the Company entered into a license agreement, or the BMS License Agreement, with Bristol-Myers Squibb Company, or BMS, under which BMS granted the Company a worldwide, non-transferable, exclusive, sublicensable license under certain patent rights and know-how controlled by BMS to research, discover, develop, make, have made, use, sell, offer to sell, export, import and commercialize AL101 and AL102, or the BMS Licensed Compounds, and products containing AL101 or AL102, or the BMS Licensed Products, for all uses including the prevention, treatment or control of any human or animal disease, disorder or condition.

Under the BMS License Agreement, the Company is obligated to use commercially reasonable efforts to develop at least one BMS Licensed Product. The Company has sole responsibility for, and bear the cost of, conducting research and development and preparing all regulatory filings and related submissions with respect to the BMS Licensed Compounds and/or BMS Licensed Products. BMS has assigned and transferred all INDs for the BMS Licensed Compounds to the Company. The Company is also required to use commercially reasonable efforts to obtain regulatory approvals in certain major market countries for at least one BMS Licensed Product, as well as to affect the first commercial sale of and commercialize each BMS Licensed Product after obtaining such regulatory approval. The Company has sole responsibility for, and bear the cost of, commercializing BMS Licensed Products. For a limited period of time, the Company may not engage directly or indirectly in the clinical development or commercialization of a Notch inhibitor molecule that is not a BMS Licensed Compound.

NOTE 6—COMMITMENTS AND CONTINGENT LIABILITIES (continued):

The Company is required to make payment to BMS upon the achievement of certain development or regulatory milestone events of up to $95 million in the aggregate with respect to the first BMS Licensed Compound to achieve each such event and up to $47 million in the aggregate with respect to each additional BMS Licensed Compound to achieve each such event. The Company is also obligated to pay BMS payments of up to $50 million in the aggregate for each BMS Licensed Product that achieves certain sales-based milestone events and tiered royalties on net sales of each BMS Licensed Product by the Company or its affiliates or sublicensees at rates ranging from a high single-digit to low teen percentage, depending on the total annual worldwide net sales of each such Licensed Product. If the Company sublicenses or assigns any rights to the licensed patents, the BMS Licensed Compounds and/or the BMS Licensed Products, the Company is required to share with BMS a portion of all consideration received from such sublicense or assignment, ranging from a mid-teen to mid-double-digit percentage, depending on the development stage of the most advanced BMS Licensed Compound or BMS Licensed Product that is subject to the applicable sublicense or assignment, but such portion may be reduced based on the milestone or royalty payments that are payable by the Company to BMS under the BMS License Agreement.

The Company accounted for the acquisition of the rights granted by BMS as an asset acquisition because it did not meet the definition of a business. The Company recorded the total consideration transferred and value of shares issued to BMS as research and development expense in the consolidated statement of operations as incurred since the acquired rights granted by BMS represented in-process research and development and had no alternative future use.

The Company accounts for contingent consideration payable upon achievement of sales milestones in such asset acquisitions when the underlying contingency is resolved.

The BMS License Agreement remains in effect, on a country-by-country and BMS Licensed Product-by-BMS Licensed Product basis, until the expiration of royalty obligations with respect to a given BMS Licensed Product in the applicable country. Royalties are paid on a country-by-country and BMS Licensed Product-by-BMS Licensed Product basis from the first commercial sale of a particular BMS Licensed Product in a country until the latest of 10 years after the first commercial sale of such BMS Licensed Product in such country, (b) when such BMS Licensed Product is no longer covered by a valid claim in the licensed patent rights in such country, or (c) the expiration of any regulatory or marketing exclusivity for such BMS Licensed Product in such country. Any inventions, and related patent rights, invented solely by either party pursuant to activities conducted under the BMS License Agreement shall be solely owned by such party, and any inventions, and related patent rights, conceived of jointly by the Company and BMS pursuant to activities conducted under the BMS License Agreement shall be jointly owned by the Company and BMS, with BMS's rights thereto included in the Company's exclusive license. The Company has the first right—with reasonable consultation with, or participation by, BMS—to prepare, prosecute, maintain and enforce the licensed patents, at the Company's expense.

BMS has the right to terminate the BMS License Agreement in its entirety upon written notice to the Company (a) for insolvency-related events involving the Company, (b) for the Company's material breach of the BMS License Agreement if such breach remains uncured for a defined period of time, for the Company's failure to fulfill its obligations to develop or commercialize the BMS Licensed Compounds and/or BMS Licensed Products not remedied within a defined period of time following written notice by BMS, or (d) if the Company or its affiliates commence any action challenging the validity, scope, enforceability or patentability of any of the licensed patent rights. The Company has the right to terminate the BMS License Agreement (a) for convenience upon prior written notice to BMS, the length of notice dependent on whether a BMS Licensed Project has received regulatory approval, (b) upon immediate written notice to BMS for insolvency-related events involving BMS, (c) for BMS's material breach of the BMS License Agreement if such breach remains uncured for a defined period of time, or (d) on a BMS Licensed Compound-by-BMS Licensed Compound and/or BMS Licensed Product-by-BMS Licensed Product basis upon immediate written notice to BMS if the Company reasonably determine that there are unexpected safety and public health issues relating to the applicable BMS Licensed Compounds and/or BMS Licensed Products.

Upon termination of the BMS License Agreement in its entirety by the Company for convenience or by BMS, the Company grants an exclusive, non-transferable, sublicensable, worldwide license to BMS under certain of its patent rights that are necessary to develop, manufacture or commercialize BMS Licensed Compounds or BMS Licensed Products. In exchange for such license, BMS must pay the Company a low single-digit percentage royalty on net sales of the BMS Licensed Compounds and/or BMS Licensed Products by it or its affiliates, licensees or sublicensees, provided that the termination occurred after a specified developmental milestone for such BMS Licensed Compounds and/ or BMS Licensed Products.

Option and License Agreement with Novartis International Pharmaceutical Ltd.

In December 2018, the Company entered into an evaluation, option and license agreement, or the Novartis Option Agreement, with Novartis International Pharmaceutical Limited, or Novartis, pursuant to which Novartis agreed to conduct certain studies to evaluate AL102 in combination with its B-cell maturation antigen, or BCMA, therapies in multiple myeloma, and the Company agreed to supply AL102 for such studies. All supply and development costs associated with such evaluation studies were fully borne by Novartis.

NOTE 6—COMMITMENTS AND CONTINGENT LIABILITIES (continued):

Under the Novartis Option Agreement, the Company granted Novartis an exclusive option to obtain an exclusive (including as to the Company and its affiliates), sublicensable (subject to certain terms and conditions), worldwide license and sublicense (as applicable) under certain patent rights and know-how controlled by the Company (including applicable patent rights and know-how that are licensed from BMS pursuant to the BMS License Agreement) to research, develop, manufacture (subject to the Company's non-exclusive right to manufacture and supply AL102 or the Novartis Licensed Product for Novartis) and commercialize AL102 or any pharmaceutical product containing AL102 as the sole active ingredient, or the Novartis Licensed Product, for the diagnosis, prophylaxis, treatment, or prevention of multiple myeloma in humans. The Company also granted Novartis the right of first negotiation for the license rights to conduct development or commercialization activities with respect to the use of AL102 for indications other than multiple myeloma. Additionally, from the exercise by Novartis of its option until the termination of the Novartis Option Agreement, the Company was not able to, either itself or through its affiliates or any other third parties, directly or indirectly research, develop or commercialize certain BCMA-related compounds for the treatment of multiple myeloma.

Novartis owned any inventions, and related patent rights, invented solely by it or jointly with the Company in connection with activities conducted pursuant to the Novartis Option Agreement. The Company maintained first right to prosecute and maintained any patents licensed to Novartis, both before and after its exercise of its option. The Company maintained the first right to defend and enforce its patents prior to Novartis's exercise of its option, upon which Novartis gains such right with respect to patents included in the license.

On June 2, 2022, Novartis informed the Company that Novartis does not intend to exercise its option to obtain an exclusive license for AL102, thereby terminating the agreement.

Purported Stockholder Claims

Purported Stockholder Claims Related to Proposed 2021 Transaction with Biosight

During 2021, the Company and Biosight entered into an Agreement and Plan of Merger and Reorganization contemplating a combination of the two companies, which transaction was ultimately not consummated. Between September 16, 2021, and November 4, 2021, the Company received demand letters on behalf of six purported stockholders of the Company, alleging that the Company failed to disclose certain matters in the Registration Statement, and demanding that the Company disclose such information in a supplemental disclosure filed with the SEC. On October 14, 2021, the Company filed an amendment to the Registration Statement and on November 8, 2021, the Company made certain other additional disclosures that mooted the demands asserted in the above-referenced letters. The six plaintiffs have made settlement demands. On May 20, 2022, the Company and one of the plaintiffs reached a settlement agreement. The other plaintiffs have abandoned their claims and the Company will not make further disclosure regarding this matter absent a material change in circumstances.

NOTE 6—COMMITMENTS AND CONTINGENT LIABILITIES (continued):

In addition, the Company received certain additional demands from stockholders asserting that the proxy materials filed by the Company in connection with the Previously Proposed Merger contained alleged material misstatements and/or omissions. Certain stockholders also demanded books and records of the Company pursuant to Delaware law. In response to these demands, the Company agreed to make, and did make, certain supplemental disclosures to the proxy materials. The stockholders have made settlement demands. On July 18, 2022, the Company and the plaintiffs consummated settlement agreements.

Purported Stockholder Claims Related to Merger with Old Ayala

On December 15, 2022, a purported stockholder of Old Ayala filed a complaint in the U.S. District Court for the Southern District of New York against Old Ayala and the members of its Board, captioned Stephen Bushansky v. Ayala Pharmaceuticals, Inc., Case No.1:22-cv-10621 (S.D.N.Y.) (the "Complaint").

The Complaint asserts claims against all defendants under Section 14(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and Rule 14a-9 promulgated thereunder for omitting or misrepresenting material information from Old Ayala's Proxy Statement and against the individual defendants under Section 20(a) of the Exchange Act for alleged "control person" liability with respect to such alleged omissions and misrepresentations. The allegations in the Complaint include that the Proxy Statement omitted material information regarding Old Ayala's financial projections and the financial analyses of Old Ayala's financial advisor for the Merger. The Complaint seeks, among other relief, (1) to enjoin defendants from consummating the Merger; (2) to enjoin a vote on the Merger; (3) to rescind the Merger Agreement or recover damages, if the Merger is completed; (4) a declaration that defendants violated Sections 14(a) or 20(a) and Rule 14a-9 of the Exchange Act; and (5) attorneys' fees and costs. The complaint was never served on all defendants.

In addition, approximately nine purported stockholders of Old Ayala sent letters to those noted in the above-referenced Complaint alleging similar deficiencies in Old Ayala's Proxy Statement (collectively, the "Demand Letters").

At this time, the Company is unable to predict the likelihood of an unfavorable outcome with respect to the Complaint and the Demand Letters.

NOTE 7— SUBSEQUENT EVENTS

On July 26, 2023, the Company and its wholly owned subsidiary organized under the laws of the State of Israel, Advaxis Israel Ltd. ("Merger Sub"), entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") signed a merger agreement with Biosight Ltd. ("Biosight"), a privately-held Israeli pharmaceutical company developing innovative therapeutics for hematological malignancies and disorders. Under the terms of the Merger Agreement, Merger Sub will merge (the "Biosight Merger") with and into Biosight, with Biosight being the surviving entity as a wholly owned subsidiary of the Company. Upon completion of the Biosight Merger, ownership of the combined company will be split, with 55% ownership going to Biosight stockholders and 45% going to Ayala stockholders. The Merger Agreement has been unanimously approved by the Board of Directors of each company, by all directors entitled to vote. The transaction is expected to close around the end of the third quarter of 2023, subject to regulatory and other conditions including approval of Biosight stockholders.

On August 7, 2023, the Company entered into a convertible note agreement (the "Note") with ISRAEL BIOTECH FUND I, L.P. The Note provides for the borrowing by the Company of up to $2.0 million dollars, which borrowings are expected to fund on or after September 1, 2023, or sooner under certain circumstances if required, which as of date of this filling have not been met. [The Note is convertible into shares of the Company's common stock under the terms described in the Note, with the expected mandatory conversion in the event of a PIPE (Private Investment into a Public Entity) with the minimum of $15 Million investment at a price equal to 65% of the lowest price offered in the PIPE.] [Note, this may require some changes to conversion being triggered by the PIPE.]

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited condensed consolidated financial statements and the related notes included elsewhere in this Quarterly Report on Form 10-Q. Some of the information contained in this discussion and analysis or set forth elsewhere in this Quarterly Report on Form 10-Q, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. As a result of many factors, including those factors set forth in the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended October 31, 2022 and the Annual Report of Old Ayala, Inc. on Form 10-K for the fiscal year ended December 31, 2022 (the "Old Ayala 2022 Form 10-K"), our actual results could differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.

Recent Development

On July 26, 2023, the Company and its wholly owned subsidiary organized under the laws of the State of Israel, Advaxis Israel Ltd. ("Biosight Merger Sub"), entered into an Agreement and Plan of Merger and Reorganization (the "Merger Agreement") with Biosight Ltd. ("Biosight"), a privately-held Israeli pharmaceutical company developing innovative therapeutics for hematological malignancies and disorders. Under the terms of the Merger Agreement, Merger Sub will merge (the "Biosight Merger") with and into Biosight, with Biosight being the surviving entity as a wholly owned subsidiary of the Company. Upon completion of the Biosight Merger, ownership of the combined company will be split, with 55% ownership going to Biosight stockholders and 45% going to Ayala stockholders. The Merger Agreement has been unanimously approved by the Board of Directors of each company. The transaction is expected to close prior to the end of the third quarter of 2023, subject to regulatory and other conditions including approval of Biosight stockholders.

Merger with Old Ayala

On October 18, 2022, the Company, which at the time was named Advaxis, Inc., entered into a Merger Agreement (the "Merger Agreement"), subject to shareholder approval, with the entity then known as Ayala Pharmaceuticals, Inc., with the Ayala Pharmaceuticals, Inc. shortly prior to the closing of the merger in January 2023 changing its name to Old Ayala Inc., ("Old Ayala") and Doe Merger Sub, Inc. ("Merger Sub"), our direct, wholly-owned subsidiary. Under the terms of the Merger Agreement, Merger Sub merged with and into Old Ayala, with Old Ayala continuing as the surviving company and our wholly-owned subsidiary (the "Merger"). Immediately after the Merger, our stockholders as of immediately prior to the Merger owned approximately 37.5% of the outstanding shares of the combined company and former Old Ayala shareholders owned approximately 62.5% of the outstanding shares of the combined company. The Merger was accounted for a reverse acquisition pursuant to ASC 805-40.

At the effective time of the Merger (the "Effective Time"), each share of common stock of Old Ayala issued and outstanding immediately prior to the Effective Time was converted into the right to receive a number of shares of the our common stock equal to the exchange ratio, 0.1874 shares of our common stock per Old Ayala share**.**

Overview

Following the Merger we are primarily a clinical-stage oncology company focused on developing and commercializing small molecule therapeutics for patients suffering from rare and aggressive cancers, primarily in genetically defined patient populations. Our differentiated development approach is predicated on identifying and addressing tumorigenic drivers of cancer, through a combination of our bioinformatics platform and next-generation sequencing to deliver targeted therapies to underserved patient populations. Our current portfolio of product candidates, AL101 and AL102, targets the aberrant activation of the Notch pathway using gamma secretase inhibitors. Gamma secretase is the enzyme responsible for Notch activation and, when inhibited, turns off the Notch pathway activation. Aberrant activation of the Notch pathway has long been implicated in multiple solid tumor and hematological cancers and has often been associated with more aggressive cancers. In cancers, Notch is known to serve as a critical facilitator in processes such as cellular proliferation, survival, migration, invasion, drug resistance and metastatic spread, all of which contribute to a poorer patient prognosis. AL101 and AL102 are designed to address the underlying key drivers of tumor growth, and our initial Phase 2 clinical data of AL101 suggest that our approach may address shortcomings of existing treatment options. We believe that our novel product candidates, if approved, have the potential to transform treatment outcomes for patients suffering from rare and aggressive cancers. We also continue to conduct certain operations relating to former Advaxis' operations as clinical-stage biotechnology company focused on the development and commercialization of proprietary *Listeria monocytogenes* ("*Lm*")-based antigen delivery products. These efforts are primarily focused on the development of ADXS-504, a *Lm*-based therapy for early-stage prostate cancer.

Our product candidates, AL101 and AL102, are being developed as potent, selective, small molecule gamma secretase inhibitors, or GSIs. We obtained an exclusive, worldwide license to develop and commercialize AL101 and AL102 from Bristol-Myers Squibb Company, or BMS, in November 2017. BMS evaluated AL101 in three Phase 1 studies involving more than 200 total subjects and AL102 in a single Phase 1 study involving 36 subjects with various cancers who had not been prospectively characterized for Notch activation, and to whom we refer to as unselected subjects. While these Phase 1 studies did not report statistically significant overall results, clinical activity was observed across these studies in cancers in which Notch has been implicated as a tumorigenic driver.

We are currently evaluating AL102, our oral GSI for the treatment of desmoid tumors, in our RINGSIDE Phase 2/3 pivotal study. In February 2022, Part A completed enrollment of 42 patients with progressive desmoid tumors in three study arms across three doses of AL102. We reported initial interim data from Part A in July 2022 with additional updated data released at medical conference in September 2022 and June 2023, showing efficacy across all cohorts, with early tumor responses that deepened over time. AL102 was well tolerated. We have initiated Part B of RINGSIDE (Phase 3), and are enrolling patients in an open label extension study. Part B of the study is a double-blind placebo-controlled study enrolling up to 156 patients with progressive disease, randomized between AL102 or placebo. The study's primary endpoint will be progression free survival, or PFS with secondary endpoints including ORR, duration of response, or DOR and patient reported QOL measures. On September 27, 2022, we announced that FDA has granted Fast Track designation for AL102 for the treatment of progressing desmoid tumors. The FDA grants Fast Track designation to facilitate development and expedite the review of therapies with the potential to treat a serious condition where there is an unmet medical need. A therapeutic that receives Fast Track designation can benefit from early and frequent communication with the agency, in addition to a rolling submission of the marketing application, with potential pathways for expedited approval that have the objective of getting important new therapies to patients more quickly.

On July 5, 2023, Ayala announced that an instructive and successful End-of-Phase-2 (EOP2) meeting with the U.S. Food and Drug Administration (FDA) was concluded. As a result of the meeting, the Company confirmed that it is in agreement with the FDA on key elements of the randomized Phase 3 segment of RINGSIDE. The FDA accepted the Company's selection of the 1.2 mg once daily dose being evaluated in the currently-enrolling Phase 3 and the completed and proposed clinical pharmacology plan.

In addition, we collaborated with Novartis International Pharmaceutical Limited, or Novartis, to develop AL102 for the treatment of multiple myeloma, or MM, in combination with Novartis' B-cell maturation antigen, or BCMA, targeting therapies. On June 2, 2022, Novartis informed the Company that Novartis does not intend to exercise its option to obtain an exclusive license for AL102, thereby terminating the agreement. Novartis has informed that initial results from a phase 1 dose-escalation study of WVT078, a BCMA×CD3 bispecific antibody, in combination with AL102 in patients with multiple myeloma will be presented at a medical conference at the end of 2023.

We are currently concluding a Phase 2 ACCURACY trial for the treatment of recurrent/metastatic adenoid cystic carcinoma, or R/M ACC, in subjects with progressive disease and Notch-activating mutations. We refer to this trial as the ACCURACY trial. We use next-generation sequencing, or NGS, to identify patients with Notch-activating mutations, an approach that we believe will enable us to target the patient population with cancers that we believe are most likely to respond to and benefit from AL101 treatment. We chose to initially target R/M ACC based on our differentiated approach, which is comprised of: data generated in a Phase 1 study of AL101 in unselected, heavily pretreated subjects conducted by BMS, our own data generated in patient-derived xenograft models, our bioinformatics platform and our expertise in the Notch pathway.

Based on available AL101 clinical data in the ACC Notch positive population, Ayala expects to obtain clarity on the potential regulatory registration pathway with FDA by the end of 2023. AL101 was granted Orphan Drug Designation in May 2019 for the treatment of adenoid cystic carcinoma, or ACC, and fast track designation in February 2020 for the treatment of R/M ACC. We reported interim data regarding the most recent safety efficacy, pharmacokinetics, and pharmacodynamics data from Phase 2 of the ACCURACY trial in June 2022 and final topline data will be presented at a medical conference in October 2023.

As part of our efforts to focus our resources on the more advanced programs and studies including the RINGSIDE study in desmoid tumors and the ACCURACY study for ACC, we elected to cease the TENACITY trial, which was evaluating AL101 as a monotherapy in an open-label Phase 2 clinical trial for the treatment of patients with Notch-activated R/M TNBC.

We were originally incorporated in the State of Colorado on June 5, 1987 and later reorganized as a Delaware corporation in 2006. Our principal executive offices are located at 9 Deer Park Drive, Suite K-1, Monmouth Junction, New Jersey 08852. Old Ayala, the accounting acquirer in the Merger, was incorporated as a Delaware corporation on November 14, 2017. Our operations to date have been limited to organizing and staffing our company, business planning, raising capital and conducting research and development activities for our product candidates. To date, we have funded our operations primarily through the sales of common stock and convertible preferred stock.

We have incurred significant net operating losses in every year since our inception and expect to continue to incur significant expenses and increasing operating losses for the foreseeable future. Our net losses may fluctuate significantly from quarter to quarter and year to year and could be substantial. Our net losses were approximately $16.1 million and $18.1 million for the six months ended June 30, 2023 and 2022, respectively. As of June 30, 2023, we had an accumulated deficit of $165.2 million. We anticipate that our expenses will increase significantly as we:

- advance our development of AL101 for the treatment of R/M ACC;
- advance our Phase 2/3 RINGSIDE pivotal trial of AL102 for the treatment of desmoid tumors, or conduct clinical trials for any other product candidates;
- assuming successful completion of our Phase 2 ACCURACY trial of AL101 for the treatment of R/M ACC, may be required by the FDA to complete Phase 3 clinical trials to support submission of a New Drug Application, or NDA, of AL101 for the treatment of R/M ACC;
- establish a sales, marketing and distribution infrastructure to commercialize AL101 and/or AL102, if approved, and for any other product candidates for which we may obtain marketing approval;

- maintain, expand, protect and enforce our intellectual property portfolio;

- hire additional staff, including clinical, scientific, technical, regulatory operational, financial, commercial and other personnel, to execute our business plan; and

- add clinical, scientific, operational, financial and management information systems and personnel to support our product development and potential future commercialization efforts, and to enable us to operate as a public company.

We do not expect to generate revenue from product sales unless and until we successfully complete clinical development and obtain regulatory approval for a product candidate. Additionally, we currently use contract research organizations, or CROs, to carry out our clinical development activities. Furthermore, we incur additional costs associated with operating as a public company. As a result, we will need substantial additional funding to support our continuing operations, pursue our growth strategy and continue as a going concern. Until such time as we can generate significant revenue from product sales, if ever, we expect to fund our operations through public or equity offerings or debt financings, marketing and distribution arrangements and other collaborations, strategic alliances and licensing arrangements or other sources. We may, however, be unable to raise additional funds or enter into such other arrangements when needed on favorable terms or at all. Our failure to raise capital or enter into such other arrangements as and when needed would have a negative impact on our financial condition and our ability to develop our current or any future product candidates.

Because of the numerous risks and uncertainties associated with therapeutics product development, we are unable to predict accurately the timing or amount of increased expenses or when or if we will be able to achieve or maintain profitability. Even if we can generate revenue from product sales, we may not become profitable. If we fail to become profitable or are unable to sustain profitability on a continuing basis, then we may be unable to continue our operations at planned levels and be forced to reduce or terminate our operations.

As of June 30, 2023, we had cash and cash equivalents of approximately $7.1 million. Due to the uncertainty in securing additional funding, and the insufficient amount of cash and cash equivalent resources on June 30, 2023, we have concluded that substantial doubt exists with respect to our ability to continue as a going concern within one year after the date of the filing of this Quarterly Report on Form 10-Q. See “— Liquidity and Capital Resources.” Substantial doubt about our ability to continue as a going concern may materially and adversely affect the price per share of our common stock, and it may be more difficult for us to obtain financing. If potential collaborators decline to do business with us or potential investors decline to participate in any future financings due to such concerns, our ability to increase our cash position may be limited. We will need to generate significant revenues to achieve profitability, and we may never do so. Because of the numerous risks and uncertainties associated with the development of our current and any future product candidates, the development of our platform and technology and because the extent to which we may enter into collaborations with third parties for development of any of our product candidates is unknown, we are unable to estimate the amounts of increased capital outlays and operating expenses required for completing the research and development of our product candidates.

If we raise additional funds through marketing and distribution arrangements and other collaborations, strategic alliances, and licensing arrangements with third parties, we may be required to relinquish valuable rights to our technologies, intellectual property, future revenue streams or product candidates or grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate product candidate development programs or future commercialization efforts, grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves or discontinue operations.

Bristol-Myers Squibb License Agreements

In November 2017, we entered into an exclusive worldwide license agreement with Bristol-Myers Squibb Company, or BMS, for AL101 and AL102, each a small molecule gamma secretase inhibitor in development for the treatment of cancers. Under the terms of the license agreement, we have licensed the exclusive worldwide development and commercialization rights for AL101 (previously known as BMS-906024) and AL102 (previously known as BMS-986115).

We are responsible for all future development and commercialization of AL101 and AL102. In consideration for the rights granted under the agreement, we paid BMS a payment of $6 million and issued to BMS 1,125,929 shares of Series A preferred stock valued at approximately $7.3 million, which converted to 562,964 shares of common stock in connection with our initial public offering, or IPO. We are obligated to pay BMS up to approximately $142 million in the aggregate upon the achievement of certain clinical development or regulatory milestones and up to $50 million in the aggregate upon the achievement of certain commercial milestones by each product containing the licensed BMS compounds. In addition, we are obligated to pay BMS tiered royalties ranging from a high single-digit to a low teen percentage on worldwide net sales of all products containing the licensed BMS compounds.

BMS has the right to terminate the BMS License Agreement in its entirety upon written notice to us (a) for insolvency-related events involving us, (b) for our material breach of the BMS License Agreement if such breach remains uncured for a defined period of time, (c) for our failure to fulfil our obligations to develop or commercialize the BMS Licensed Compounds and/or BMS Licensed Products not remedied within a defined period of time following written notice by BMS, or (d) if we or our affiliates commence any action challenging the validity, scope, enforceability or patentability of any of the licensed patent rights. We have the right to terminate the BMS License Agreement (a) for convenience upon prior written notice to BMS, the length of notice dependent on whether a BMS Licensed Product has received regulatory approval, (b) upon immediate written notice to BMS for insolvency-related events involving BMS, (c) for BMS's material breach of the BMS License Agreement if such breach remains uncured for a defined period of time, or (d) on a BMS Licensed Compound-by-BMS Licensed Compound and/or BMS Licensed Product-by-BMS Licensed Product basis upon immediate written notice to BMS if we reasonably determine that there are unexpected safety and public health issues relating to the applicable BMS Licensed Compounds and/or BMS Licensed Products. Upon termination of the BMS License Agreement in its entirety by us for convenience or by BMS, we grant an exclusive, non-transferable, sublicensable, worldwide license to BMS under certain of our patent rights that are necessary to develop, manufacture or commercialize BMS Licensed Compounds or BMS Licensed Products. In exchange for such license, BMS must pay us a low single-digit percentage royalty on net sales of the BMS Licensed Compounds and/or BMS Licensed Products by it or its affiliates, licensees or sublicensees, provided that the termination occurred after a specified developmental milestone for such BMS Licensed Compounds and/or BMS Licensed Products.

Novartis License Agreements

In December 2018, we entered into an evaluation, option and license agreement, or the Novartis Agreement, with Novartis International Pharmaceutical Limited, or Novartis, pursuant to which we granted Novartis an exclusive option to obtain an exclusive license to research, develop, commercialize and manufacture AL102 for the treatment of multiple myeloma.

We supplied Novartis quantities of AL102, products containing AL102 and certain other materials for purposes of conducting evaluation studies not comprising human clinical trials during the option period, together with our know-how as may have been reasonably be necessary in order for Novartis to conduct such evaluation studies. Novartis agreed to reimburse us for all such expenses.

On June 2, 2022, Novartis informed the Company that Novartis does not intend to exercise its option to obtain an exclusive license for AL102, thereby terminating the agreement.

Financial Overview

Except as described below, there have been no material changes from the disclosure provided under the caption "Components of Results of Operations" in the Old Ayala 2022 Form 10-K.

Results of Operations (in thousands, except share and per share amounts)

Comparison of the six months ended June 30, 2023 and 2022

The following table summarizes our results of operations for six months ended June 30, 2023 and 2022. The results of operations for the six months ended June 30, 2023, reflect the operations of the post-Merger combined company for the period from January 20, 2023 to June 30, 2023. The results of operations for the six months ended June 30, 2022, reflect the operations solely of Old Ayala, which was the accounting acquirer in the Merger.

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2023	**2022**	**2023**	**2022**
Revenues from licensing agreement and others	$ 9	$ 38	$ 13	$ 496
Cost of services	(9)	(38)	(13)	(406)
Gross profit	—	—	—	90
Operating expenses:				
Research and development	5,723	5,580	12,988	13,083
General and administrative	2,763	2,272	7,367	4,705
Operating loss	(8,486)	(7,852)	(20,355)	(17,698)
Financial (loss) income, net	(86)	(42)	215	40
Loss before income tax	(8,572)	(7,894)	(20,140)	(17,658)
Taxes on income	(127)	(214)	4,080	(403)
Net loss	(8,699)	(8,108)	(16,060)	(18,061)
Net loss per share attributable to common stockholders, basic and diluted	$ (1.82)	$ (2.83)	$ (3.51)	$ (6.30)
Weighted average common shares outstanding, basic and diluted*	**4,776,344**	**2,869,612**	**4,580,661**	**2,868,499**

Revenue

To date, we have not generated any revenue from product sales, and we do not expect to generate any revenue from the sale of products in the foreseeable future. If our development efforts for our product candidates are successful and result in regulatory approval and successful commercialization efforts, we may generate revenue from product sales in the future. We cannot predict if, when, or to what extent we will generate revenue from the commercialization and sale of our product candidates. We may never succeed in obtaining regulatory approval for any of our product candidates.

For the six months ended June 30, 2023 and 2022, we recognized approximately $13 thousand in revenue and $496 thousand in revenue, respectively, mainly as a result of the Novartis Agreement. For the three months ended June 30, 2023 and 2022, we recognized approximately $9 thousand in revenue and $38 thousand in revenue, respectively, mainly as a result of the Novartis Agreement.

Refer to note 2 to our unaudited condensed consolidated financial statements for information regarding our recognition of revenue under the Novartis Agreement.

Research and Development

Research and development expenses consist primarily of costs incurred for our research activities, including the development of and pursuit of regulatory approval of our lead product candidates, AL101 and AL102, and which include:

- employee-related expenses, including salaries, benefits and stock-based compensation expense for personnel engaged in research and development functions;
- expenses incurred in connection with the preclinical and clinical development of our product candidates, including under agreements with CROs, investigative sites and consultants;
- costs of manufacturing our product candidates for use in our preclinical studies and clinical trials, as well as manufacturers that provide components of our product candidates for use in our preclinical and current and potential future clinical trials;
- costs associated with our bioinformatics platform;
- consulting and professional fees related to research and development activities;
- costs related to compliance with clinical regulatory requirements; and
- Facility costs and other allocated expenses, which include expenses for rent and maintenance of our facility, utilities, depreciation and other supplies.
- Conduct certain operations relating to former Advaxis' operations as clinical-stage biotechnology company focused on the development and commercialization of proprietary *Listeria monocytogenes* ("*Lm*")-based antigen delivery products.

We expense research and development costs as incurred. Our external research and development expenses consist primarily of costs such as fees paid to consultants, contractors and CROs in connection with our preclinical and clinical development activities. We typically use our employee and infrastructure resources across our development programs and we do not allocate personnel costs and other internal costs to specific product candidates or development programs with the exception of the costs to manufacture our product candidates.

	Six Months Ended June 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
Research and development	$ 12,988	$ 13,083	$ (95)	(1)%

	Three Months Ended June 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
Research and development	$ 5,723	$ 5,580	$ 143	2.6%

Research and development expenses were $13.0 million for the six months ended June 30, 2023 compared to $13.1 million for the six months ended June 30, 2022. The decrease was due to the termination of the TENACITY trial and winding down of the ACCURACY trial offset by expenses incurred by the programs of former Advaxis.

Research and development expenses were $5.7 million for the three months ended June 30, 2023 compared to $5.6 million for the three months ended June 30, 2022. The increase was due to expenses incurred by the programs of former Advaxis, offset by the termination of the TENACITY trial and winding down of the ACCURACY trial.

The following table summarizes our research and development expenses by product candidate or development program for the three and six months ended June 30, 2023 and 2022:

	Three Months Ended		Six Months Ended	
	June 30, 2023	June 30, 2022	June 30, 2023	June 30, 2022
Program-Specific Costs:				
AL 101				
ACC	492	801	1,253	1,763
TNBC [1]	65	1,200	887	2,534
General expenses	104	474	1,093	1,176
AL 102				
General expenses	1,164	61	1,482	180
Desmoid	1,973	3,044	4,637	7,430
Other R&D expenses	1,925	-	3,636	-
Total research and development expenses	$ 5,723	$ 5,580	$ 12,988	$ 13,083

(1) As part of our efforts to focus our resources on the more advanced programs and studies including the RINGSIDE study in desmoid tumors and the ACCURACY study for ACC, we elected to cease the TENACITY trial, which was evaluating AL101 as a monotherapy in an open-label Phase 2 clinical trial for the treatment of patients with Notch-activated R/M TNBC.

We expect our research and development expenses to increase for the foreseeable future as we continue to invest in research and development activities related to developing our product candidates, including investments in manufacturing, as our programs advance into later stages of development and as we conduct additional clinical trials.

General and Administrative Expenses	Six Months Ended June 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
General and Administrative	$ 7,367	$ 4,705	$ 2,662	57%

General and Administrative Expenses	Three Months Ended June 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
General and Administrative	$ 2,763	$ 2,272	$ 491	22%

General and administrative expenses were $7.4 million for the six months ended June 30, 2023 compared to $4.7 million for the six months ended June 30, 2022. The increase was mainly due to severance agreement obligations recognized in the period to former executives of $0.9 million in salary compensation and $01.1 million in stock-based compensation due to acceleration of options as part of severance agreement.

General and administrative expenses were $2.8 million for the three months ended June 30, 2023, compared to $2.3 million for the three months ended June 30, 2022. The increase was mainly due one time legal expenses in relation to the Biosight merger.

Financial Loss, net

Financial income, net was $215 thousand for the six months ended June 30, 2023 compared, $40 thousand for the six months ended June 30, 2022. Financial loss, net was $86 thousand for the three months ended June 30, 2023 compared to $42 thousand for the three months ended June 30, 2022.

Liquidity and Capital Resources

Sources of Liquidity

Since our inception, we have not generated any revenue from product sales and have incurred significant operating losses and negative cash flows from our operations. Our net losses were approximately $16.1 million for the six months ended June 30, 2023. As June 30, 2023, we had an accumulated deficit of $165.2 million.

On February 19, 2021, Old Ayala entered into a Securities Purchase Agreement (the "2021 Purchase Agreement") with the purchasers named therein (the "Investors"). Pursuant to the 2021 Purchase Agreement, Old Ayala agreed to sell (i) an aggregate of 62,467* shares of our common stock (the "Private Placement Shares"), par value $0.01 per share, together with warrants to purchase an aggregate of 21,863* shares of Old Ayala's common stock with an exercise price of $96.58* per share (the "Common Warrants"), for an aggregate purchase price of $4,999,995.00 and (ii) pre-funded warrants to purchase an aggregate of 249,866* shares of our common stock with an exercise price of $0.05* per share (the "Pre-Funded Warrants" and collectively with the Common Warrants, the "Private Placement Warrants"), together with an aggregate of 87,453*Common Warrants, for an aggregate purchase price of $19,986,661.67 (collectively, the "Private Placement"). The Private Placement closed on February 23, 2021.

In June 2021, Old Ayala entered into an Open Market Sales Agreement, or the Sales Agreement, with Jefferies LLC, or Jefferies, as sales agent, pursuant to which Old Ayala was able to, from time to time, issue and sell common stock with an aggregate value of up to $200.0 million in "at-the-market" offerings (the "ATM"), under a registration statement on Form S-3 filed with the SEC. Sales of common stock, if any, pursuant to the Sales Agreement, could be made in sales deemed to be an "at the market offering" as defined in Rule 415(a) of the Securities Act, including sales made directly through The Nasdaq Global Market or on any other existing trading market for our common stock. During the six months ended June 30, 2022, Old Ayala sold a total of 918 shares of its common stock for total gross proceeds of approximately $47 thousand.

The exercise price and the number of shares of common stock issuable upon exercise of each Private Placement Warrant are subject to adjustment in the event of certain stock dividends and distributions, stock splits, stock combinations, reclassifications or similar events affecting the common stock. In addition, in certain circumstances, upon a fundamental transaction, a holder of Common Warrants will be entitled to receive, upon exercise of the Common Warrants, the kind and amount of securities, cash or other property that such holder would have received had they exercised the Private Placement Warrants immediately prior to the fundamental transaction. The Pre-Funded Warrants will be automatically exercised on cashless basis upon the occurrence of a fundamental transaction. Each Common Warrant is exercisable from the date of issuance and has a term of three years and each Pre-Funded Warrant is exercisable from the date of issuance and has a term of ten years. Pursuant to the 2021 Purchase Agreement, we registered the Private Placement Shares and Private Placement Warrants for resale by the Investors on a registration statement on Form S-3 (the "Private Placement Registration Statement").

On October 18, 2022, the Company, which at the time was named Advaxis, Inc., entered into a Merger Agreement (the "Merger Agreement"), with entity then known as Ayala Pharmaceuticals, Inc. following its January 2023 name change to Old Ayala, Inc., ("Old Ayala") and Doe Merger Sub, Inc. ("Merger Sub"), a direct, wholly-owned subsidiary of the Company. Under the terms of the Merger Agreement, Merger Sub merged with and into Old Ayala, with Old Ayala continuing as the surviving company and a wholly-owned subsidiary of the Company (the "Merger"). Immediately after the Merger, former Advaxis stockholders as of immediately prior to the Merger own approximately 37.5% of the outstanding shares of the combined Company and former Old Ayala shareholders own approximately 62.5% of the outstanding shares of the combined Company.

At the effective time of the Merger (the "Effective Time"), each share of share capital of Old Ayala issued and outstanding immediately prior to the Effective Time was converted into the right to receive a number of shares of the Company's common stock, par value $0.001 per share, equal to the exchange ratio, 0.1874 shares of the Company's common stock per Old Ayala share.

As of June 30, 2023, we had cash and cash equivalents of approximately $7.1 million.

Cash Flows

The following table summarizes our cash flow for the six months ended June 30, 2023 and 2022:

	Six Months Ended June 30,	
	2023	**2022**
	($ in thousands)	
Cash flows (used in) provided by:		
Operating activities	(15,302)	(17,007)
Investing activities	-	-
Financing activities	20,001	44
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(41)	-
Increase (decrease) in cash and cash equivalents and restricted cash	4,658	(16,963)

* Common Stock, Common Stock, warrant exercise price and per share data have been retroactively adjusted for the impact of the Merger, see note 1 of Finical Statements.

Operating Activities

Net cash used in operating activities during the six months ended June 30, 2023 of approximately $15.3 million was primarily attributable to our net loss of $16.1 million, adjusted for non-cash expenses of $1.3 million, which includes stock-based compensation of $1.2 million, and a net increase in working capital of $0.5 million.

Net cash used in operating activities during the six months ended June 30, 2022 of approximately $17.0 million was primarily attributable to our net loss of $18.1 million, adjusted for non-cash expenses of $1.5 million, which includes stock-based compensation of $1.4 million, and a net increase in working capital of $0.4 million.

Investing Activities

We did not have any cash provided by investing activities during the six months ended June 30, 2023 and 2022.

Financing Activities

Net cash provided by financing activities during the six months ended June 30, 2023 of $20.0 million is attributable to the merger between the Company and Old Ayala.

Net cash provided by financing activities during the six months ended June 30, 2022 of $44 thousand was attributable to sales of securities by Old Ayala.

Funding Requirements

Our future capital requirements are difficult to forecast and will depend on many factors, including our ability to raise additional funding. We expect our expenses to increase in connection with our ongoing activities, particularly as we continue the research and development for, initiate later-stage clinical trials for, and seek marketing approval for, our product candidates. In addition, if we obtain marketing approval for any of our product candidates, we expect to incur significant commercialization expenses related to product sales, marketing, manufacturing, and distribution. Furthermore, we incur additional costs associated with operating as a public company. Accordingly, we will need to obtain substantial additional funding in connection with our continuing operations. If we are unable to raise capital when needed or on attractive terms, we would be forced to delay, reduce or eliminate our research and development programs or future commercialization efforts.

As of June 30, 2023, we had cash and cash equivalents of $7.1 million. We evaluated whether there are conditions and events, considered in the aggregate, that raise substantial doubt about our ability to continue as a going concern within one year after the date that the unaudited condensed consolidated financial statements are issued. Due to the uncertainty in securing additional funding, and the insufficient amount of cash and cash equivalent resources at June 30, 2023, we have concluded that substantial doubt exists with respect to our ability to continue as a going concern within one year after the date of the filing of this Report on Form 10-Q. Our future capital requirements will depend on many factors, including:

- the costs of consummating the Merger and our ability to consummate the Merger with Biosight.;
- our receipt of funds pursuant to bridge financing arrangements that we have recently entered into
- the costs of conducting future clinical trials of AL102;
- the cost of manufacturing additional material for future clinical trials of AL102;
- the scope, progress, results and costs of discovery, preclinical development, laboratory testing and clinical trials for other potential product candidates we may develop or acquire, if any;
- the costs, timing and outcome of regulatory review of our product candidates;
- the achievement of milestones or occurrence of other developments that trigger payments under any current or future license, collaboration or other agreements;
- the costs and timing of future commercialization activities, including product sales, marketing, manufacturing and distribution, for any of our product candidates for which we receive marketing approval;

- the amount of revenue, if any, received from commercial sales of our product candidates, should any of our product candidates receive marketing approval;

- the costs of preparing, filing and prosecuting patent applications, obtaining, maintaining, protecting and enforcing our intellectual property rights and defending intellectual property-related claims;

- our headcount growth and associated costs as we expand our business operations and our research and development activities; and

- the costs of operating as a public company.

Conducting preclinical testing and clinical trials is a time-consuming, expensive and uncertain process that takes years to complete, and we may never generate the necessary data or results required to obtain marketing approval and achieve product sales. In addition, our product candidates, if approved, may not achieve commercial success. Our commercial revenues, if any, will be derived from sales of products that we do not expect to be commercially available for many years, if at all. Accordingly, we will need to continue to rely on additional financing to achieve our business objectives. Adequate additional financing may not be available to us on acceptable terms, or at all.

Until such time, if ever, as we can generate substantial product revenues, we expect to finance our cash needs through a combination of equity offerings, debt financings, collaborations, strategic alliances and licensing arrangements. We do not have any committed external source of funds. To the extent that we raise additional capital through the sale of equity or convertible debt securities, your ownership interests may be diluted, and the terms of these securities may include liquidation or other preferences that could adversely affect your rights as a common stockholder. Any debt financing, if available, may involve agreements that include restrictive covenants that limit our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends, that could adversely impact our ability to conduct our business.

If we raise funds through collaborations, strategic alliances or licensing arrangements with third parties, such as our former agreement with Novartis, we may have to relinquish valuable rights to our technologies, intellectual property, future revenue streams, research programs or product candidates or to grant licenses on terms that may not be favorable to us. If we are unable to raise additional funds through equity or debt financings when needed, we may be required to delay, limit, reduce or terminate our product development or future commercialization efforts or grant rights to develop and market product candidates that we would otherwise prefer to develop and market ourselves.

Contractual Obligations

There have been no material changes to our contractual obligations from those described in the Old Ayala 2022 Form 10-K.

Critical Accounting Policies

Our management's discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States, or GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities and expenses and the disclosure of contingent assets and liabilities in our condensed consolidated financial statements during the reporting periods. These items are monitored and analyzed by us for changes in facts and circumstances, and material changes in these estimates could occur in the future. We base our estimates on historical experience, known trends and events, and on various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Changes in estimates are reflected in reported results for the period in which they become known. Actual results may differ materially from these estimates under different assumptions or conditions.

There have been no significant changes in our critical accounting policies as discussed in the Old Ayala 2022 Form 10-K, except as described in note 1 to the unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

Not applicable.

Item 4. Controls and Procedures.

Limitations on Effectiveness of Controls and Procedures

In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints, and that management is required to apply judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our principal executive officer and principal financial officer, evaluated, as of the end of the period covered by this Quarterly Report on Form 10-Q, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act). Based on that evaluation, our principal executive officer and principal financial officer concluded that, as of June 30, 2023, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal control over Financial Reporting

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended June 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II—OTHER INFORMATION

Item 1. Legal Proceedings.

See the matters set forth in note 4, "Commitments and Contingent Liabilities – Purported Stockholder Claims" in the Notes to Condensed Consolidated Financial Statements included herein.

Item 1A. Risk Factors.

There have been no material changes to our risk factors as previously disclosed in our Annual Report on Form 10-K for the year ended October 31, 2022.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

[NOTE: The below disclosure may be subject to revision with respect to references to the PIPE.]

On August 7, 2023, the Company issued a Senior Secured Convertible Promissory Note (the "Note") to Israel Biotech Fund I, L.P. (the "Holder") with a principal amount of up to $2,000,000. In connection with the Note, the Company also entered into or provided a Security Agreement (the "Security Agreement") and exhibits in support thereof (together with the Purchase Agreement, the Security Agreement and the Subsidiary Guarantee, the "Transaction Documents") concurrent with the issuance of the Note. The Company's obligations under the Note are guaranteed by its subsidiary, Old Ayala, Inc.

General. The Holder shall fund advances under the Note on or after September 1, 2023 upon the Company making a drawdown request to the Holder, subject to exceptions for receiving advances prior to such date and subject to exceptions allowing the Holder to make or withhold advances in its sole discretion under certain circumstances, in each case as set forth in the Note. The Company shall pay interest to the Holder quarterly in kind (unless the Company otherwise elects to pay interest to the Holder quarterly in cash) on the principal amount of the Note at a rate equal to (i) the daily simple Secured Overnight Financing Rate (SOFR) plus (ii) 2%, per annum (subject to certain adjustments, as provided therein). The Note's maturity date is August 7, 2028, or such earlier date as the Note is converted or required to be repaid as provided therein. The Note is required to be senior to all the Company's other indebtedness other than the permitted indebtedness as specified in the Note.

Security. The Note is secured by substantially all the Company's existing and future assets, pursuant to the Security Agreement by and between the Company and the Holder.

Guarantee. The obligations under the Note are guaranteed by certain of the Company's existing and future domestic material subsidiaries ("U.S. Significant Subsidiaries"), pursuant to the Subsidiary Guarantee by an existing U.S. Significant Subsidiary in favor of the Holder.

Conversion. All or any portion of the principal amount of the Note, plus accrued and unpaid interest and any charges thereon, is voluntarily convertible at any time, in whole or in part, at the Holder's option, into shares of the Company's common stock ("Common Stock") at a conversion price equal to the lower of the Common Stock's price per share as of market close on August 7, 2023 and the Common Stock's price per share as of the close of market on the trading date immediately prior to the date the Holder delivers a notice of conversion, subject to adjustment as set forth therein. The Note imposes penalties on the Company for any failure to timely deliver any shares of the Company's common stock issuable upon conversion. All of the principal amount of the Note, plus accrued and unpaid interest and any charges thereon, shall automatically convert, in whole and not in part, into shares of Common Stock upon the occurrence of certain private investments in public equity transactions involving shares of Common Stock ("PIPE Transaction"). Upon a conversion in connection with a PIPE Transaction whether as a voluntary conversion or an automatic conversion, the conversion price shall equal to 65% of the lowest price per share offered in the PIPE Transaction.

Warrants. In the event that the Holder converts principal under the Note into shares of Common Stock (other than in connection with a PIPE Transaction), the Company shall issue to the Holder a Common Stock Purchase Warrant in the form attached to the Note on the terms and subject to the conditions as set forth therein; provided that if a PIPE Transaction entails the issuance of warrants or similar instruments to the investors in such PIPE Transaction, then the Holder shall be entitled to receive, upon conversion of the Note, warrants on the same terms issuable in the PIPE Transaction, with the number of warrants to be issued to Holder being calculated as set forth in the Note.

Events of Default. The Note provides for certain events of default that are typical for a transaction of this type, including, among other things, failure to pay when due amounts under the note and any breach of the covenants described below. In connection with any event of default that results in the eventual acceleration of the Note and while it is continuing, the interest rate on the Note shall accrue at an interest rate equal to the lesser of 3% per annum or the maximum rate permitted under applicable law.

Covenants. The Company will be subject to certain customary covenants regarding the incurrence and repayment of indebtedness, the creation of liens, and the making of distributions, redemptions and other restricted payments, changes in the nature of the business, violations of law, and transactions with affiliates, among other customary matters.

The Note and the Security Agreement are attached hereto as Exhibits 4.1 and 10.1, respectively, and are incorporated herein by reference. The foregoing description of the Transaction Documents does not purport to be complete and is qualified in its entirety by reference to such exhibits.

The Note and the Security Agreement have been included to provide investors and security holders with information regarding their terms. The documents are not intended to provide any other factual information about the Company. The Transaction Documents contain representations, warranties and covenants and customary for similar transactions. Such representations, warranties and covenants are being made only for purposes of such agreements and as of specific dates, were solely for the benefit of the parties to such agreements, may in some cases be made solely for the allocation of risk between the parties and may be subject to limitations agreed upon by the contracting parties.

The Note, and the shares of the Company's common stock issuable upon conversion or in payment thereof, are being offered and sold pursuant to the exemption from the registration requirements of the Securities Act of 1933, as amended, afforded by Section 4(a)(2) thereof, for the sale of securities not involving a public offering.

Item 6. Exhibits.

[NOTE: Redactions to the exhibits may be necessary with respect to references to the PIPE.]

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date	Filed/ Furnished Herewith
4.1	Senior Secured Convertible Promissory Note, dated August 7, 2023, by and between Ayala Pharmaceuticals, Inc. and Israel Biotech Fund I, L.P.					*
10.1	Security Agreement, dated August 7, 2023, by and between Ayala Pharmaceuticals, Inc. and Israel Biotech Fund I, L.P.					*
31.1	Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
31.2	Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
32.1	Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					**
101.INS	Inline XBRL Instance Document—the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document					*
101.SCH	Inline XBRL Taxonomy Extension Schema Document					*
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document					*
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document					*
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document					*
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document					*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)					*

* Filed herewith.

** Furnished herewith.

SIGNATURES

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

AYALA Pharmaceuticals, Inc.

Date: August 10, 2023

By: */s/ Kenneth Berlin*

Kenneth Berlin
President Chief Executive Officer
(principal executive officer)

Date: August 10, 2023

By: */s/ Igor Gitelman*

Igor Gitelman
Interim Chief Financial Officer
(principal financial and accounting officer)

Exhibit 4.1

NEITHER THIS SECURITY NOR THE SECURITIES INTO WHICH THIS SECURITY IS CONVERTIBLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS AS EVIDENCED BY A LEGAL OPINION OF COUNSEL IN A FORM ACCEPTABLE TO THE COMPANY.

Original Issue Date: August 7, 2023 Principal Amount: $2,000,000.00

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE
DUE August 7, 2028

THIS SENIOR SECURED CONVERTIBLE PROMISSORY NOTE is the duly authorized and validly issued convertible promissory note of AYALA PHARMACEUTICALS, INC., a Delaware corporation (the "Company"), having its principal place of business at 9 Deer Park Drive, Suite K-1, Monmouth Junction, New Jersey 08852, designated as its Senior Secured Convertible Promissory Note due August 7, 2028 (the "Note" or this "Note").

FOR VALUE RECEIVED, the Company promises to pay to ISRAEL BIOTECH FUND I, L.P. or its registered assigns (the "Holder"), or shall have paid pursuant to the terms hereunder, the principal sum of TWO MILLION DOLLARS ($2,000,000.00) on August 7, 2028 (the "Maturity Date") or such earlier date as this Note is required or permitted to be repaid as provided hereunder, and to pay interest to the Holder on the aggregate unconverted and then outstanding principal amount of this Note in accordance with the provisions hereof. This Note is subject to the following additional provisions:

Section 1. Definitions. For the purposes hereof, in addition to the terms defined elsewhere in this Note, the following terms shall have the following meanings:

"Bankruptcy Event" means any of the following events: (a) the Company or any Significant Subsidiary thereof commences a case or other proceeding under any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction relating to the Company or any Significant Subsidiary thereof, (b) there is commenced against the Company or any Significant Subsidiary thereof any such case or proceeding that is not dismissed within sixty (60) days after commencement, (c) the Company or any Significant Subsidiary thereof is adjudicated insolvent or bankrupt or any order of relief or other order approving any such case or proceeding is entered, (d) the Company or any Significant Subsidiary thereof suffers any appointment of any custodian or the like for it or any substantial part of its property that is not discharged or stayed within sixty (60) calendar days after such appointment, (e) the Company or any Significant Subsidiary thereof makes a general assignment for the benefit of creditors, (f) the Company or any Significant Subsidiary thereof calls a meeting of its creditors with a view to arranging a composition, adjustment or restructuring of its debts or (g) the Company or any Significant Subsidiary thereof, by any act or failure to act, expressly indicates its consent to, approval of or acquiescence in any of the foregoing or takes any corporate or other action for the purpose of effecting any of the foregoing.

"Change of Control Transaction" means the occurrence after the date hereof of any of (a) an acquisition by an individual or legal entity or "group" (as described in Rule 13d-5(b)(1) promulgated under the Exchange Act) of effective control (whether through legal or beneficial ownership of capital stock of the Company, by contract or otherwise) of in excess of fifty percent (50%) of the aggregate votes of the then-issued and outstanding voting securities of the Company on such basis as is then required by the Company's charter documents (other than by means of conversion of the Note), (b) the Company merges into or consolidates with any other Person, or any Person merges into or consolidates with the Company and, after giving effect to such transaction, the stockholders of the Company immediately prior to such transaction own less than fifty percent (50%) of the aggregate voting power of the Company or the successor entity of such transaction, or (c) the Company sells or transfers all or substantially all of its assets to another Person and the stockholders of the Company immediately prior to such transaction own less than fifty percent (50%) of the aggregate voting power of the acquiring entity immediately after the transaction.

"Common Stock" means (i) the Company's common stock, 0.001 par value per share and (ii) any capital stock into which such common stock shall have been changed or any share capital resulting from a reclassification of such common stock.

"Common Stock Equivalents" means any capital stock or other security of the Company that is at any time and under any circumstances directly or indirectly convertible into, exercisable or exchangeable for, and/or which otherwise entitles the holder thereof to acquire, any capital stock or other security of the Company (including, without limitation, Common Stock).

"Commission" means the United States Securities and Exchange Commission.

"Conversion Date" shall have the meaning set forth in Section 5(a).

"Conversion Price" shall have the meaning set forth in Section 5(c).

"Conversion Shares" means, collectively, the shares of Common Stock issuable upon conversion of this Note in accordance with the terms hereof.

"DTC" means the Depository Trust Company.

"DTC/FAST Program" means the DTC's Fast Automated Securities Transfer Program.

"Event of Default" shall have the meaning set forth in Section 8(a).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"GAAP" shall have the meaning set forth in Section 7(a)(v).

"Indebtedness" means, with respect to any Person at any date, without duplication, (a) all indebtedness of such Person for borrowed money, (b) all obligations of such Person for the deferred purchase price of property or services (other than trade payables and accrued expenses incurred in the ordinary course of business), (c) all obligations of such Person evidenced by notes, bonds, debentures or other similar instruments, (d) all indebtedness created or arising under any conditional sale or other title retention agreement with respect to property acquired by such Person, (e) the capitalized amount of all capital lease obligations of such Person that would appear on a balance sheet in accordance with GAAP, (f) all obligations of such Person, contingent or otherwise, to purchase, redeem, retire or otherwise acquire for value any capital stock of such Person, (g) all obligations of such Person, contingent or otherwise, with respect to all unpaid drawings in respect of letters of credit, bankers' acceptances and similar obligations, (h) all guarantee obligations of such Person in respect of obligations of the kind referred to in clauses (a) through (g) above, (i) all obligations of the kind referred to in clauses (a) through (g) above secured by (or for which the holder of such obligation has an existing right, contingent or otherwise, to be secured by) any Lien on property (including, without limitation, accounts and contract rights) owned by such Person, whether or not such Person has assumed or become liable for the payment of such obligation; *provided* that, if such Person has not assumed or become liable for the payment of such obligation, the amount of such Indebtedness shall be limited to the lesser of (A) the principal amount of the obligation being secured and (B) the fair market value of the encumbered property; and (j) all contingent obligations in respect to indebtedness or obligations of any Person of the kind referred to in clauses (a)-(i) above. The Indebtedness of any Person shall include, without duplication, the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness expressly provide that such Person is not liable therefor.

"Liabilities" means all direct or indirect liabilities and obligations of any kind of Company to the Holder pursuant to this Note and/or any of the other Loan Documents.

"Liens" or "liens" means a lien, mortgage, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction, or other clouds on title.

"Loan Documents" means, collectively, this Note, the Security Agreement, the Subsidiary Guarantee(s) and such other documents, instruments, certificates, supplements, amendments, exhibits and schedules required and/or attached pursuant to this Note and/or any of the above documents, and/or any other document and/or instrument related to the above agreements, documents and/or instruments, and the transactions hereunder and/or thereunder and/or any other agreement, documents or instruments required or contemplated hereunder or thereunder, whether now existing or at any time hereafter arising.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, property, operations, or condition (financial or otherwise) of the Company and all of its Subsidiaries, taken as a whole, (b) the validity or enforceability of this Note or any of the other Loan Documents or (c) the rights or remedies of the Holder hereunder or thereunder.

"New York Courts" shall have the meaning set forth in Section 10(d).

"Note Register" shall have the meaning set forth in Section 3(b).

"Notice of Conversion" shall have the meaning set forth in Section 5(a).

"Original Issue Date" means the date of the first issuance of this Note, regardless of any transfers of any Note and regardless of the number of instruments which may be issued to evidence such Note.

"Person" means any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, institution, entity, party or government (whether national, federal, state, county, city, municipal or otherwise including, without limitation, any instrumentality, division, agency, body or department thereof).

"Permitted Indebtedness" means (i) Indebtedness of the Company evidenced by this Note and/or any other Loan Document in favor of the Holder including all Liabilities, (ii) Indebtedness of the Company and its Subsidiaries set forth in the Company's most recent SEC Reports, *provided* none of such Indebtedness, has been materially increased, extended and/or otherwise changed since the date of the most recent SEC Reports, (iii) Indebtedness that is subordinated to and not equal to or senior to this Note, (iv) trade Indebtedness incurred in the ordinary course of business, (v) Indebtedness secured by Permitted Liens described in clauses "(iv)" and "(v)" of the definition of Permitted Liens, and (vi) Indebtedness existing as of the date hereof.

"Permitted Liens" means (i) any Lien for taxes not yet due or delinquent or being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, (ii) any statutory Lien arising in the ordinary course of business by operation of law with respect to a liability that is not yet due or delinquent, (iii) any Lien created by operation of law, such as materialman's liens, mechanics' liens and other similar liens, arising in the ordinary course of business with respect to a liability that is not yet due or delinquent or that are being contested in good faith by appropriate proceedings, (iv) Liens (A) upon or in any equipment acquired or held by the Company to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition or lease of such equipment, and (B) existing on such equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment, (v) Liens arising in connection with capital lease obligations (and attaching only to the property being leased) or (vi) any Liens securing Permitted Indebtedness set forth in Sections (i) through (iii) and (vi) of the definition of Permitted Indebtedness.

"PIPE Transaction" shall have the meaning set forth in Section 2(b).

"Registration Statement" means a registration statement covering the resale of the Underlying Shares by each Holder.

"SEC Reports" shall have the meaning set forth in Section 7(a)(v).

"Securities" means this Note and all Underlying Shares and any securities of the Company issued in replacement, substitution and/or in connection with any exchange, conversion and/or any other transaction pursuant to which all or any of such securities of the Company to the Holder.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Security Agreement" means the Security Agreement, dated as of the date hereof, as hereinafter amended and/or supplemented, together with all exhibits, schedules and annexes to such Security Agreement.

"Share Delivery Date" shall have the meaning set forth in Section 5(d)(ii).

"Significant Subsidiary" shall have the meaning of such term as defined in Rule 1-02(w) of Regulation S-X.

"Subsequent Convertible Securities" means convertible debt securities that the Company may issue after the date hereof with the principal purpose of raising capital.

"Subsidiary" means, with respect to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person.

"Subsidiary Guarantee(s)" means the Subsidiary Guarantee(s), dated as of the date hereof, as hereinafter amended and/or supplemented, together with all exhibits, schedules and annexes to such Subsidiary Guarantee(s).

"Trading Day" means any day on which the Common Stock is traded on the Trading Market, provided that "Trading Day" shall not include any day on which the Common Stock is scheduled to trade on the Trading Market for less than 4.5 hours or any day that the Common Stock is suspended from trading during the final hour of trading on the Trading Market (or if the Trading Market does not designate in advance the closing time of trading on the Trading Market, then during the hour ending at 4:00:00 p.m., New York City time).

"Trading Market" means any of the following markets or exchanges on which the Common Stock (or any other common stock of any other Person that references the Trading Market for its common stock) is listed or quoted for trading on the date in question: the OTC Bulletin Board, The NASDAQ Global Market, The NASDAQ Global Select Market, The NASDAQ Capital Market, the New York Stock Exchange, NYSE Arca, the NYSE MKT, or the OTCQX Marketplace, the OTCQB Marketplace, the OTCPink Marketplace or any other tier operated by OTC Markets Group Inc. (or any successor to any of the foregoing).

"Underlying Shares" means the Conversion Shares.

Section 2. Funding.

a) Advances at Borrower's Request. The Company may, at any time and from time to time request, in writing, that the Holder advance up to Two Million Dollars ($2,000,000) in the aggregate under this Note (each, a "Drawdown Request"), to be funded on or after September 1, 2023 (or such earlier date as provided below); provided that a Drawdown Request shall be for a sum of not less than $500,000 (other than the last Drawdown Request which may be for the balance of the principal amount not previously advanced). Each Drawdown Request shall set forth the amount of the anticipated advance and be submitted by the Company to the Holder in writing at least 10 days prior to the anticipated advance. The Holder shall advance the applicable amount to the Company, on the date set forth on the Drawdown Request (which advance date shall be on or after September 1, 2023, or such earlier date as provided below), in accordance with wire instructions on the Drawdown Request. Once an amount is drawn down under this Note, such amount shall not be available for future drawdown. Notwithstanding the foregoing, if IQVIA Holdings Inc. or one of its subsidiaries makes, prior to September 1, 2023, a bona fide written demand from the Company to pay outstanding invoices for services performed for the Company through the date hereof (the "IQVIA Amount"), the Company may issue a Drawdown Request prior to September 1, 2023 in an amount equal to the lower of the IQVIA Amount and the principal amount of this Note (the "IQVIA Drawdown Request").

b) Advances at Lender's Discretion. Notwithstanding the foregoing Section 2(a), if at the time of delivery of an IQVIA Drawdown Request (i) the shareholders of Biosight Ltd., a company organized under the laws of the State of Israel ("Target"), have not voted to approve the Merger contemplated by that certain Agreement and Plan of Merger and Reorganization, dated as of July 26, 2023, by and among the Company, Advaxis Israel, Ltd., a company organized under the laws of the State of Israel and a wholly-owned subsidiary of the Company, and Target, and the other parties named therein, if any (the "Merger Agreement"), (ii) all required approvals of the transactions contemplated by the Merger Agreement, including the Merger, have not yet been obtained (or declined by the parties or authorities that are authorized to provide such approvals), (iii) the Company has not obtained bona fide written commitments (email being sufficient) from investors of at least $15,000,000 of investments in a private investment in public equity (PIPE) transaction involving shares of Common Stock of the Company (a "PIPE Transaction"), or (iv) the Merger Agreement has been terminated by either party, the obligation of the Holder to advance the IQVIA Amount shall be at the Holder's sole discretion.

c) Advances as Directed by Lender. Notwithstanding the foregoing, the Holder may determine in its sole discretion to advance amounts hereunder (up to a total of $2 million *less* any funds already advanced pursuant to a Drawdown Request) at any time and from time to time (i) immediately prior to the completion of a PIPE Transaction or any other Change of Control Transaction, and (ii) within three Trading Days following the date that is six months of the date hereof (to the extent a PIPE Transaction or any other Change of Control Transaction has not occurred and will not occur within six months following the date hereof). Holder will provide the Company with two Trading Days' notice of such determination to advance, and shall advance such amounts on the date set forth in such notice.

Section 3. Interest.

a) Payment of Interest. Interest shall accrue on the principal amount of this Note at a per annum rate equal to the daily simple Secured Overnight Financing Rate published on the New York Federal Reserve website located at https://www.newyorkfed.org/markets/reference-rates/sofr plus two percent (2%) (which interest rate may be increased as provided elsewhere herein), and shall be paid in kind quarterly and added to the principal amount of this Note, unless the Company otherwise elects to pay interest to the Holder quarterly in cash. Interest provided for in this Section 3(a) shall be due and payable on the last calendar day of each quarter and on the Maturity Date; provided, however, notwithstanding anything to the contrary provided herein or elsewhere, interest accrued but not yet paid shall be due and payable in kind or in cash at the Company's election upon any conversion, prepayment, and/or acceleration whether as a result of an Event of Default or otherwise with respect to the principal amount being so converted, prepaid and/or accelerated.

b) Interest Calculations. Interest shall be calculated on the basis of a 365/366-day year, and shall accrue commencing on the Original Issue Date until payment in full of the outstanding principal, together with all accrued and unpaid interest and other amounts which may become due hereunder, has been made. Interest hereunder will be paid to the Person in whose name this Note is registered on the records of the Company regarding registration and transfers of this Note (the "Note Register").

Section 4. Registration of Transfers and Exchanges.

a) Different Denominations. This Note is exchangeable for an equal aggregate principal amount of Notes of different authorized denominations, as requested by the Holder surrendering the same. No service charge will be payable for such registration of transfer or exchange.

b) Reliance on Note Register. Prior to due presentment for transfer to the Company of this Note, the Company and any agent of the Company may treat the Person in whose name this Note is duly registered on the Note Register as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Note is overdue, and neither the Company nor any such agent shall be affected by notice to the contrary.

Section 5. Conversion.

a) Voluntary Conversion. At any time and from time to time, commencing on the Original Issue Date until this Note is no longer outstanding, the principal (and interest accrued thereon) under this Note shall be convertible, in whole or in part, into shares of Common Stock at the option of the Holder, at any time and from time to time. The Holder shall effect conversions by delivering to the Company a Notice of Conversion (each, a "Notice of Conversion"), specifying therein the principal amount of this Note and/or any other amounts due under this Note to be converted and the date on which such conversion shall be effected (such date, the "Conversion Date"). If no Conversion Date is specified in a Notice of Conversion, the Conversion Date shall be the date that such Notice of Conversion is deemed delivered hereunder. No ink-original Notice of Conversion shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Conversion form be required so long as the shares to be issued pursuant thereto are to be registered in the name of the holder of the Note. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to the Company unless the entire principal amount of this Note, all accrued and unpaid interest thereon and all other amounts due under this Note have been so converted. Conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion amount. The Holder and the Company shall maintain a conversion schedule showing the principal amount(s) and/or any other amounts due under this Note converted and the date of such conversion(s).

b) Mandatory Conversion. At any time upon the occurrence of a PIPE Transaction by the Company, commencing on the Original Issue Date until this Note is no longer outstanding, the principal (and interest accrued thereon) under this Note shall convert automatically, in whole and not in part, into shares of Common Stock. The Company shall deliver to the Holder a Notice of Conversion, specifying therein the total principal amount of this Note and/or any other amounts due under this Note to be converted, which conversion shall be contingent upon the consummation of the PIPE Transaction, and such conversion shall become effective immediately prior to the closing of the PIPE Transaction. No ink-original Notice of Conversion shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Conversion form be required so long as the shares to be issued pursuant thereto are to be registered in the name of the holder of the Note. The Holder shall be required to physically surrender this Note to the Company in connection with a conversion pursuant to this Section 5(b).

c) Conversion Price; Warrants. The conversion price in effect on any Conversion Date shall be equal to the lower of the Common Stock's price per share as of market close on the date hereof and the Common Stock's price per share as of the close of market on the Trading Day immediately prior to the date of the Notice of Conversion, subject to adjustment as set forth herein (the "Conversion Price"); provided, however that if this Note converts in connection with and at the time of a PIPE Transaction by the Company (whether as a voluntary conversion pursuant to Section 5(a) above or an automatic conversion pursuant to Section 5(b) above), (i) the Conversion Price shall equal sixty-five percent (65%) of the lowest price per share offered in the PIPE Transaction and (ii) if the PIPE Transaction entails the issuance of warrants (or similar instruments) to the investors in the PIPE Transaction, then Holder shall be entitled to receive, upon conversion of this Note, warrants on the same terms issuable in the PIPE Transaction (with the number of warrants to be issued to Holder being calculated based on the principal (and interest accrued thereon) of this Note, assuming, for the purpose of calculating the number of warrants to be issued, that the percentage "sixty-five percent (65%)" in clause (i) above were replaced by "one hundred percent (100%)"). All such foregoing determinations will be appropriately adjusted for any stock dividend, stock split, stock combination, reclassification or similar transaction that proportionately decreases or increases the Common Stock during such measuring period.

d) Mechanics of Conversion.

i. Conversion Shares Issuable Upon a Conversion. The number of Conversion Shares issuable upon a conversion hereunder shall be determined by the quotient obtained by dividing (x) the sum of (i) the outstanding principal to be converted as provided in the applicable Notice of Conversion, (ii) accrued and unpaid interest thereon (if the Company has elected to pay interest in shares of Common Stock) and (iii) any other amount due under this Note by (y) the Conversion Price.

ii. Delivery of Certificate Upon Conversion. Not later than two (2) Trading Days after each Conversion Date (the "Share Delivery Date"), the Company shall deliver, or cause to be delivered, to the Holder (A) a certificate or certificates representing the Conversion Shares (which, on or after the date on which the resale of such Conversion Shares are covered by and are being sold pursuant to an effective Registration Statement or such Conversion Shares are eligible to be sold under Rule 144 without the need for current public information and the Company has received an opinion of counsel to such effect acceptable to the Company (which opinion the Company will be responsible for obtaining at its own cost) shall be free of restrictive legends and trading restrictions) representing the number of Conversion Shares being acquired or being sold, as the case may be, upon the conversion of this Note, and (B) payment in the amount of accrued and unpaid interest on the principal amount so converted (if the Company has elected to pay accrued interest in cash). All certificate or certificates required to be delivered by the Company under this Section 5(d) shall be delivered electronically through DTC or another established clearing corporation performing similar functions, unless the Company or its transfer agent does not have an account with DTC and/or is not participating in the DTC/FAST Program, in which case the Company shall issue and deliver to the address as specified in such Notice of Conversion a certificate (or certificates), registered in the name of the Holder or its designee, for the number of Conversion Shares to which the Holder shall be entitled. If the Conversion Shares are not being sold pursuant to an effective Registration Statement or if the Conversion Date is prior to the date on which such Conversion Shares are eligible to be sold under Rule 144 without the need for current public information, the Conversion Shares shall bear a restrictive legend in the following form, as appropriate:

"THE ISSUANCE AND SALE OF THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF (A) AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR (B) AN OPINION OF COUNSEL ACCEPTABLE TO THE COMPANY THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT."

iii. Failure to Deliver Certificates. If, in the case of any Notice of Conversion, such certificate or certificates are not delivered to or as directed by the applicable Holder by the Share Delivery Date, the Holder shall be entitled to elect by written notice to the Company at any time on or before its receipt of such certificate or certificates, to rescind such Notice of Conversion, in which event the Company shall promptly return to the Holder any original Note delivered to the Company, and the Holder shall promptly return to the Company the certificate or certificates issued to such Holder pursuant to the rescinded Notice of Conversion.

iv. Obligation Absolute. The Company's obligations to issue and deliver the Conversion Shares upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any Person or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Company or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance that might otherwise limit such obligation of the Company to the Holder in connection with the issuance of such Conversion Shares; provided, however, that such delivery shall not operate as a waiver by the Company of any such action the Company may have against the Holder.

v. Compensation for Buy-In on Failure to Timely Deliver Certificates Upon Conversion. In addition to any other rights available to the Holder, if the Company fails for any reason to deliver to the Holder such certificate or certificates by the Share Delivery Date pursuant to Section 5(d)(ii), and if after such Share Delivery Date the Holder is required by its brokerage firm to purchase (in an open market transaction or otherwise), or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Conversion Shares which the Holder was entitled to receive upon the conversion relating to such Share Delivery Date (a "Buy-In"), then the Company shall (A) pay in cash to the Holder (in addition to any other remedies available to or elected by the Holder) the amount, if any, by which (x) the Holder's total purchase price (including any brokerage commissions) for the Common Stock so purchased exceeds (y) the product of (1) the aggregate number of shares of Common Stock that the Holder was entitled to receive from the conversion at issue multiplied by (2) the actual sale price at which the sell order giving rise to such purchase obligation was executed (including any brokerage commissions) and (B) at the option of the Holder, either reissue (if surrendered) this Note in a principal amount equal to the principal amount of the attempted conversion (in which case such conversion shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued if the Company had timely complied with its delivery requirements under Section 5(d)(ii). The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit a Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver certificates representing shares of Common Stock upon conversion of this Note as required pursuant to the terms hereof.

vi. Reservation of Shares Issuable Upon Conversion. The Company covenants that it will at all times reserve and keep available out of its authorized and unissued shares of Common Stock a number of shares of Common Stock at least equal to the amount of shares necessary for the purpose of issuance upon conversion of this Note and payment of interest on this Note, each as herein provided, free from preemptive rights or any other actual contingent purchase rights of Persons other than the Holder. The Company covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly authorized, validly issued, fully paid and nonassessable.

vii. Fractional Shares. No fractional shares or scrip representing fractional shares shall be issued upon the conversion of this Note. As to any fraction of a share that the Holder would otherwise be entitled to purchase upon such conversion, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Conversion Price or round up to the next whole share.

viii. Transfer Taxes and Expenses. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificates, provided that, the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of this Note so converted, and the Company shall not be required to issue or deliver such certificates unless or until the Person or Persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid. The Company shall pay all transfer agent fees required for same-day processing of any Notice of Conversion.

e) Issuance of Warrants. In the event that the Holder converts principal under this Note into shares of Common Stock (other than in connection with a PIPE Transaction as contemplated by the proviso to Section 5(c) above), the Company shall issue to the Holder a Common Stock Purchase Warrant in the form attached hereto as **Exhibit A** on the terms and subject to the conditions as set forth therein.

Section 6. Certain Adjustments.

a) Stock Dividends and Stock Splits. If the Company, at any time while this Note is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on shares of Common Stock or any Common Stock Equivalents (which, for the avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon conversion of, or payment of interest on, the Note), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares or (iv) issues, in the event of a reclassification of shares of the Common Stock, any shares of capital stock of the Company, then the Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding any treasury shares of the Company) outstanding immediately before such event, and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or reclassification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 6(a) above, if at any time the Company grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights that the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without regard to any limitations on exercise hereof) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

c) Pro Rata Distributions. During such time as this Note is outstanding, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of shares of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, stock or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Note, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of shares of Common Stock acquirable upon complete conversion of this Note (without regard to any limitations on conversion hereof) immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the participation in such Distribution.

d) Fundamental Transaction. If, at any time while this Note is outstanding (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of fifty percent (50%) or more of the outstanding Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person, whereby such other Person acquires more than fifty percent (50%) of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each, a "Fundamental Transaction", except that the transactions contemplated by the Merger Agreement, and, for the avoidance of doubt, any PIPE Transaction, shall not be considered a Fundamental Transaction), then, upon any subsequent conversion of this Note, the Holder shall have the right (but not the obligation) to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Note is convertible immediately prior to such Fundamental Transaction. For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the "Successor Entity") to assume in writing all of the obligations of the Company under this Note and the other Loan Documents (as defined in the Purchase Agreement) in accordance with the provisions of this Section 5(e) pursuant to written agreements in form and substance reasonably satisfactory to the Holder and approved by the Holder (without unreasonable delay) prior to such Fundamental Transaction and shall, at the option of the holder of this Note, deliver to the Holder in exchange for this Note a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Note that is convertible for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon conversion of this Note (without regard to any limitations on the conversion of this Note) prior to such Fundamental Transaction, and with a conversion price which applies the conversion price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such conversion price being for the purpose of protecting the economic value of this Note immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Note and the other Loan Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Note and the other Loan Documents with the same effect as if such Successor Entity had been named as the Company herein.

e) Calculations. All calculations under this Section 6 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 6, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding any treasury shares of the Company) issued and outstanding.

f) Notice to the Holder.

i. Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Section 6, the Company shall promptly deliver to each Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

ii. Notice to Allow Conversion by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Company shall declare a redemption of the Common Stock, (C) the Company shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding-up of the affairs of the Company, then, in each case, the Company shall cause to be filed at each office or agency maintained for the purpose of conversion of this Note, and shall cause to be delivered to the Holder at its last address as it shall appear upon the Note Register, at least fifteen (15) calendar days prior to the applicable record or effective date hereinafter specified, a notice, stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided hereunder constitutes, or contains, material, non-public information regarding the Company or any of the Subsidiaries, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to convert this Note during the period commencing on the date of such notice through the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

iii. Other Notices. The Company shall deliver to each Holder (i) a written notice of at least 10 days prior to the completion of a PIPE Transaction or any other Change of Control Transaction, describing the material terms thereof and enclosing any transaction documents in connection therewith and (ii) upon the Holder's request, promptly provide information regarding the events set forth in Section 2(b).

g) "MFN" Amendment Provision. If the Company issues any Subsequent Convertible Securities with terms more favorable than those of this Note (including, without limitation, a Conversion Price lower than the Conversion Price determined hereunder), the Company will promptly provide the Holder with written notice thereof, together with a copy of such Subsequent Convertible Securities (the "MFN Notice") and, upon written request of the Holder, any additional information related to such Subsequent Convertible Securities as may be reasonably requested by the Holder. In the event the Holder determines that the terms of the Subsequent Convertible Securities are preferable to the terms of this Note, the Holder will notify the Company in writing within 14 days of the receipt of the MFN Notice. Promptly after receipt of such written notice from the Holder, the Company agrees to amend and restate this Note to be identical to the instrument(s) evidencing the Subsequent Convertible Securities.

Section 7. Representations and Warranties.

a) Representation and Warranties of the Company. The Company represents and warrants to the Holder that as of the date hereof and as of each Drawdown Request, at which time the below representations and warranties shall be true and correct in all material respects:

i. Organization and Qualification. The Company is an entity duly incorporated or otherwise organized and validly existing, and the Company is in good standing, under the respective laws of the jurisdiction of its incorporation or organization, with the requisite power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company is not in violation nor default of any of the provisions of its respective certificate or articles of incorporation, bylaws or other organizational or charter documents.

ii. No Conflict. The execution, delivery and performance of this Note and the other Loan Documents and the transactions contemplated hereby and thereby by the Company (and, where applicable, its Significant Subsidiaries), including, but not limited to, the reservation for issuance of the shares of Common Stock required to be reserved pursuant to the terms of this Note and of the sale and issuance the Conversion Shares into which this Note is convertible do not and shall not contravene or conflict with any provision of, or require any consents (except such consents as have already been received) under (1) any law, rule, regulation or ordinance, (2) the Company's organizational documents, and/or (3) any agreement binding upon the Company or any of the Company's properties, except in each case of (1) and (3) as would not reasonably be expected to have a Material Adverse Effect, and do not result in, or require, the creation or imposition of any lien and/or encumbrance on any of the Company's properties or revenues pursuant to any law, rule, regulation or ordinance or otherwise, except as would not reasonably be expected to have a Material Adverse Effect.

iii. Authorization; Enforcement. All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Note and the other Loan Documents and the performance of all obligations of the Company under this Note and the other Loan Documents have been taken on or prior to the date hereof. Each of this Note and the other Loan Documents has been duly executed by the Company and, when delivered in accordance with the terms hereof and thereof, will constitute the valid and binding obligation of the Company enforceable against the Company in accordance with its terms, except as limited by the Bankruptcy Limitations (as defined below).

iv. Valid Issuance of the Securities. The Securities have been duly authorized and, when issued and paid for in accordance with the applicable Loan Documents, will be duly and validly issued, fully paid and nonassessable, free and clear of all liens and all restrictions on transfer other than those expressly imposed by the federal securities laws and vest in the Holder full and sole title and power to the Securities. The Company has reserved from its duly authorized unissued capital stock a number of shares of Common Stock sufficient for issuance of the Underlying Shares.

v. SEC Reports; Financial Statements. The Company has filed all reports, schedules, forms, statements and other documents required to be filed by the Company under the Securities Act and the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, for the one (1) year preceding the date hereof (the foregoing materials, including the exhibits thereto and documents incorporated by reference therein, being collectively referred to herein as the "SEC Reports"). As of their respective dates, the SEC Reports complied in all material respects with the requirements of the Securities Act and the Exchange Act, as applicable, and none of the SEC Reports, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Reports comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto as in effect at the time of filing. Such financial statements have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis during the periods involved ("GAAP"), except as may be otherwise specified in such financial statements or the notes thereto and except that unaudited financial statements may not contain all footnotes required by GAAP, and fairly present in all material respects the financial position of the Company and its consolidated Subsidiaries as of and for the dates thereof and the results of operations and cash flows for the periods then ended, subject, in the case of unaudited statements, to normal, immaterial, year-end audit adjustments.

vi. No Consents. No direct or indirect consent, approval, authorization or similar item is required to be obtained by the Company to enter into this Note, and/or the other Loan Documents to which it is a party and to perform or undertake any of the transactions contemplated pursuant to this Note, and/or any of the other Loan Documents to which it (or any Significant Subsidiary thereof) is a party, except for such consents as have already been received.

vii. No General Solicitation. Neither the Company, nor any of its affiliates, nor, to the knowledge of the Company, any Person acting on its behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D) in connection with the offer or sale of the Securities.

viii. Seniority. As of the date hereof, no indebtedness or other claim against the Company is senior to this Note in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise, other than indebtedness secured by purchase money security interests (which is senior only as to underlying assets covered thereby) and capital lease obligations (which is senior only as to the property covered thereby).

ix. Listing of Securities. All Underlying Shares have been approved, if so required, for listing or quotation on the Trading Market, subject only to notice of issuance.

x. DTC Eligible. The Common Stock is DTC eligible and DTC has not placed a "freeze" or a "chill" on the Common Stock and the Company has no reason to believe that DTC has any intention to make the Common Stock not DTC eligible, or place a "freeze" or "chill" on the Common Stock.

xi. Listing and Maintenance Requirements. The Common Stock is registered pursuant to Section 12(b) or 12(g) of the Exchange Act, and the Company has taken no action designed to, or which to its knowledge is likely to have the effect of, terminating the registration of the Common Stock under the Exchange Act nor has the Company received any notification that the Commission is contemplating terminating such registration. Except as disclosed in the SEC Reports, the Company has not, in the twelve (12) months preceding the date hereof, received notice from any Trading Market on which the Common Stock is or has been listed or quoted to the effect that the Company is not in compliance with the listing or maintenance requirements of such Trading Market.

xii. Use of Proceeds. The proceeds of the sale and issuance of the Note shall be used, after payment of transaction expenses, for the Company's working capital and general corporate purposes as set forth in the Company's annual budget, as reasonably agreed between the Company and the Holder.

xiii. Certain Fees. No brokerage or finder's fees or commissions are or will be payable by the Company to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Loan Documents. The Holder shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Loan Documents.

xiv. Investment Company. The Company is not, and is not an Affiliate of, and immediately after receipt of payment for the Securities, will not be or be an Affiliate of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Company shall conduct its business in a manner so that it will not become an "investment company" subject to registration under the Investment Company Act of 1940, as amended.

xv. Private Placement. Assuming the accuracy of Holder's representations and warranties set forth in Section 7(b), (i) no registration under the Securities Act is required for the offer and sale of the Securities by the Company to Holder as contemplated hereby, and (ii) neither the Company, nor any of its affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would cause the issuance and/or sale of the Securities to be integrated with prior offerings of securities by the Company for purposes of the Securities Act that would require the registration of any such Securities and/or any other securities of the Company under the Securities Act.

xvi. Ability to Perform. There are no actions, suits, proceedings or investigations pending against the Company or the Company's assets before any court or governmental agency (nor is there any threat thereof) that would impair in any way the Company's ability to enter into and fully perform its commitments and obligations under this Note and the Loan Documents to which it is a party or the transactions contemplated hereby or thereby. All of the U.S. Significant Subsidiaries of the Company have executed and delivered a Subsidiary Guarantee in favor of Holder.

xvii. Acknowledgment Regarding the Holder's Purchase of Note. The Company acknowledges and agrees that the Holder is acting solely in the capacity of an arm's length purchaser with respect to this Note and the other Loan Documents. The Company further acknowledges that the Holder is not acting as a financial advisor or fiduciary of the Company (or in any similar capacity) with respect to the Loan Documents and the transactions contemplated hereby and thereby, and any advice given by the Holder or any of its representatives or agents in connection with the Loan Documents and the transactions contemplated hereby and thereby is merely incidental to the Holder's purchase of the Securities. The Company further represents to the Holder that the Company's decision to enter into the Loan Documents has been based solely on the independent evaluation by the Company and its representatives.

xviii. Material Contracts. Neither Company nor any of its Subsidiaries is (and, to the knowledge of Company, no other party is) in default under or breach of the BMS License (as defined in the Security Agreement) to which Company is a party, and there are no events or conditions, which constitute, or, after notice or lapse of time or both, will constitute, a default on the part of Company or any of its Subsidiaries or, to the knowledge of Company, any counterparty under the BMS License. The BMS License is in full force and effect and is a valid, binding and enforceable obligation of Company or its Subsidiaries, except that such enforcement may be subject to the Bankruptcy Limitation. The Company and its Subsidiaries have performed all respective material obligations required to be performed by them to date under the BMS License.

b) Representations and Warranties of the Holder. The Holder hereby represents and warrants as of the date hereof to the Company as follows:

i. Authorization. The Holder has full power and authority to enter into this Note and the other Loan Documents to which it is a party, to perform its obligations hereunder and thereunder and to consummate the transactions contemplated hereby and thereby and has taken all action necessary to authorize the execution and delivery of this Note and the other Loan Documents to which it is a party, the performance of its obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby.

ii. Own Account. The Holder understands that the Securities are "restricted securities" and have not been registered under the Securities Act or any applicable state securities law and is acquiring the Securities as principal for its own account and not with a view to or for distributing or reselling such Securities or any part thereof in violation of the Securities Act or any applicable state securities law, has no present intention of distributing any of such Securities in violation of the Securities Act or any applicable state securities law and has no direct or indirect arrangement or understandings with any other persons to distribute or regarding the distribution of such Securities in violation of the Securities Act or any applicable state securities law (this representation and warranty not limiting the Holder's right to sell the Securities pursuant to an effective registration statement or otherwise in compliance with applicable federal and state securities laws). The Holder is acquiring the Securities hereunder in the ordinary course of its business.

iii. Accredited Investor Status; Investment Experience. At the time the Holder was offered the Securities it was, and as of the date hereof and as of the date hereof it is, and on each date on which it converts any portion of the Note it will be, an "accredited investor" as that term is defined in Rule 501(a) of Regulation D.

iv. Experience of Holder. The Holder, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment. The Holder is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

v. General Solicitation. The Holder is not purchasing the Securities as a result of any advertisement, article, notice or other communication regarding the Securities published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or any other general solicitation or general advertisement.

vi. Reliance on Exemptions. The Holder understands that the Securities are being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that the Company is relying in part upon the truth and accuracy of, and the Holder's compliance with, the representations, warranties, agreements, acknowledgments and understandings of the Holder set forth herein in order to determine the availability of such exemptions and the eligibility of the Holder to acquire the Securities.

vii. No Governmental Review. The Holder understands that no United States federal or state agency or any other government or governmental agency has passed on or made any recommendation or endorsement of the Securities, or the fairness or suitability of an investment in the Securities nor have such authorities passed upon or endorsed the merits of the offering of the Securities.

viii. Validity; Enforcement; No Conflicts. This Note and each Loan Document to which the Holder is a party have been duly and validly authorized, executed and delivered on behalf of the Holder and shall constitute the legal, valid and binding obligations of the Holder enforceable against the Holder in accordance with their respective terms, except as such enforceability may be limited by general principles of equity or to applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors' rights and remedies (collectively, the "Bankruptcy Limitations").

ix. Organization and Standing. The Holder is duly organized, validly existing and in good standing (if such concept is recognized under such laws) under the laws of the State where it was formed.

x. Brokers or Finders. No brokerage or finder's fees or commissions are or will be payable by the Holder to any broker, financial advisor or consultant, finder, placement agent, investment banker, bank or other Person with respect to the transactions contemplated by the Loan Documents. The Company shall have no obligation with respect to any fees or with respect to any claims made by or on behalf of other Persons for fees of a type contemplated in this Section that may be due in connection with the transactions contemplated by the Loan Documents.

xi. Ability to Perform. There are no actions, suits, proceedings or investigations pending against the Holder or the Holder's assets before any court or governmental agency (nor is there any threat thereof) that would impair in any way the Holder's ability to enter into and fully perform its commitments and obligations under this Note and the Loan Documents to which it is a party or the transactions contemplated hereby or thereby.

xii. Confidentiality. Other than confidential disclosure to other Persons party to this Note or to the Holder's representatives, including, without limitation, its officers, directors, partners, legal and other advisors, employees, agents and Affiliates, the Holder has maintained the confidentiality of all disclosures made to it in connection with this transaction (including the existence and terms of this transaction).

Section 8. Events of Default.

a) "Event of Default" means, wherever used herein, any of the following events (whatever the reason for such event and whether such event shall be voluntary or involuntary or effected by operation of law or pursuant to any judgment, decree or order of any court, or any order, rule or regulation of any administrative or governmental body):

i. any default in the payment of (A) the principal amount of the Note or (B) interest, liquidated damages and other amounts owing to the Holder on the Note, as and when the same shall become due and payable (whether on a Conversion Date or the Maturity Date or by acceleration or otherwise), which default, solely in the case of an interest payment or other default under clause (B) above, is not cured within three (3) Trading Days;

ii. the Company shall fail to observe or perform any other material covenant contained in the Note, which failure is not cured, if possible to cure, within the earlier to occur of (A) five (5) Trading Days after notice of such failure sent by the Holder to the Company and (B) ten (10) Trading Days after the Company has become or should have become aware of such failure;

iii. a default or event of default (subject to any grace or cure period provided in the applicable agreement, document or instrument) shall occur under any of the Loan Documents;

iv. any representation or warranty made in this Note, any other Loan Documents, any written statement pursuant hereto or thereto or any other report, financial statement or certificate made or delivered to the Holder shall be untrue or incorrect in any material respect as of the date when made or deemed made;

v. the Company or any Significant Subsidiary shall be subject to a Bankruptcy Event;

vi. the Company shall fail for any reason to deliver Conversion Shares to a Holder prior to the fifth (5^{th}) Trading Day after a Share Delivery Date pursuant to Section 5(e) or the Company shall provide at any time notice to the Holder, including by way of public announcement, of the Company's intention to not honor requests for conversions of the Note in accordance with the terms hereof;

vii. the Company fails to file with the Commission any required reports under Section 13 or 15(d) of the Exchange Act such that it is not in compliance with Rule 144(c)(1) (or Rule 144(i)(2), if applicable) for a period of more than 30 days; and

viii. the Company shall fail to maintain sufficient reserved shares pursuant to this Note.

b) Remedies Upon Event of Default. If any Event of Default occurs and is continuing, then at the Holder's election, the outstanding principal amount of this Note, plus accrued but unpaid interest, liquidated damages and other amounts owing in respect thereof through the date of acceleration, shall become immediately due and payable. After the occurrence of any Event of Default that results in the eventual acceleration of this Note and while it is continuing, the interest rate on this Note shall accrue at an interest rate equal to the lesser of (i) three percent (3%) per annum in excess of the rate otherwise applicable hereto and (ii) the maximum rate permitted under applicable law (with a credit for any "unused" guaranteed interest). In connection with such acceleration described herein, the Holder need not provide, and the Company hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately and without expiration of any grace period enforce any and all of its rights and remedies hereunder and all other remedies available to it under applicable law. Such acceleration may be rescinded and annulled by the Holder at any time prior to payment hereunder and the Holder shall have all rights as a holder of the Note until such time, if any, as the Holder receives full payment pursuant to this Section 8(b). No such rescission or annulment shall affect any subsequent Event of Default or impair any right consequent thereon.

Section 9. Negative Covenants. Until all the Liabilities are paid in full, Company covenants and agrees that:

(a) Restricted Payments. Except as contemplated by the Loan Documents, the Company shall not directly or indirectly, redeem, defease, repurchase, repay or make any payments in respect of, by the payment of cash or cash equivalents (in whole or in part, whether by way of open market purchases, tender offers, private transactions or otherwise), all or any portion of any Indebtedness, whether by way of payment in respect of principal of (or premium, if any) or interest on, such Indebtedness, except for Permitted Indebtedness; *provided, however*, that, notwithstanding anything to the contrary provided herein or elsewhere, in no event shall the Company directly and/or indirectly make any payment to any officer, director, or five percent (5%) or greater beneficial holder of the Company's voting stock or Common Stock or an affiliate of the Company and/or any affiliate of any such person representing the direct and/or indirect repayment of Indebtedness, premiums and/or interest on Indebtedness, and/or accrued but unpaid interest.

(b) Restriction on Redemption and Dividends. Other than as permitted or required under the Loan Documents, the Company shall not, directly or indirectly, redeem or repurchase shares of or declare or pay any dividend or distribution on any of its capital stock whether in cash, stock rights and/or property.

(c) Indebtedness. The Company shall not incur or permit to exist any Indebtedness, except for Permitted Indebtedness.

(d) Liens. The Company shall not create or permit to exist any Liens or security interests with respect to any assets, whether now owned or hereafter acquired and owned, except for Permitted Liens.

(e) Change in Nature of Business. The Company shall not, directly or indirectly, engage in any business substantially different from the business conducted by the Company on the date hereof or any business substantially related or incidental thereto.

(f) Violation of Law. The Company shall not violate any law, statute, ordinance, rule, regulation, judgment, decree, order, writ or injunction of any federal, state or local authority, court, agency, bureau, board, commission, department or governmental body if such violation could have a Material Adverse Effect.

(g) Transactions with Affiliates. The Company shall not directly and/or indirectly enter into, renew, extend or be a party to, any transaction or series of related transactions which would be required to be disclosed in any public filing with the SEC (including, without limitation, lending funds to an Affiliate and/or borrowing funds from any Affiliate, the purchase, sale, lease, transfer or exchange of property, securities or assets of any kind or the rendering of services of any kind) with any officer, director, Affiliate and/or any Affiliate of such person, unless such transaction is made on an arms' length basis and expressly approved by a majority of the disinterested directors (even if less than a quorum otherwise required for board approval).

Section 10. Miscellaneous.

a) Notices. Any and all notices or other communications or deliveries to be provided by the Holder hereunder, including, without limitation, any Notice of Conversion, shall be in writing and delivered personally, by facsimile, by electronic mail or sent by a nationally recognized overnight courier service, addressed to the Company, at the address set forth below or such other address as the Company may specify for such purposes by notice to the Holder delivered in accordance with this Section 10(a). Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile, by electronic mail or sent by a nationally recognized overnight courier service addressed to the Holder at the facsimile number or address of the Holder appearing on the books of the Company, or if no such facsimile number or address appears on the books of the Company, at the principal place of business of such Holder. Any notice or other communication or deliveries hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile or electronic mail prior to 5:00 p.m. (New York City time) on any date, (ii) the next Trading Day after the date of transmission, if such notice or communication is delivered via facsimile or electronic mail on a day that is not a Trading Day or later than 5:00 p.m. (New York City time) on any Trading Day, (iii) the second Trading Day following the date of mailing, if sent by U.S. nationally recognized overnight courier service or (iv) upon actual receipt by the party to whom such notice is required to be given.

b) Absolute Obligation. Except as expressly provided herein, no provision of this Note shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of, liquidated damages and accrued interest, as applicable, on this Note at the time, place, and rate, and in the coin or currency, herein prescribed. This Note is a direct debt obligation of the Company.

c) Lost or Mutilated Note. If this Note shall be mutilated, lost, stolen or destroyed, the Company shall execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Note, or in lieu of or in substitution for a lost, stolen or destroyed Note, a new Note for the principal amount of this Note so mutilated, lost, stolen or destroyed, but only upon receipt of evidence of such loss, theft or destruction of such Note, and of the ownership hereof, reasonably satisfactory to the Company.

d) Governing Law. All questions concerning the construction, validity, enforcement and interpretation of this Note shall be governed by and construed and enforced in accordance with the internal laws of the State of New York, without regard to the principles of conflict of laws thereof. Each party agrees that all legal proceedings concerning the interpretation, enforcement and defense of the transactions contemplated by any of the Loan Documents (whether brought against a party hereto or its respective Affiliates, directors, officers, shareholders, employees or agents) shall be commenced in the state and federal courts sitting in New York, New York (the "New York Courts"). Each party hereto hereby irrevocably submits to the exclusive jurisdiction of the New York Courts for the adjudication of any dispute hereunder or in connection herewith or with any transaction contemplated hereby or discussed herein (including with respect to the enforcement of any of the Loan Documents), and hereby irrevocably waives, and agrees not to assert in any suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such New York Courts, or such New York Courts are improper or inconvenient venue for such proceeding. Each party hereto hereby irrevocably waives, to the fullest extent permitted by applicable law, any and all right to trial by jury in any legal proceeding arising out of or relating to this Note or the transactions contemplated hereby.

e) Amendment; Waiver; Assignment. Any provision of this Note may be amended by a written instrument executed by the Company and Holder, which amendment shall be binding on all successors and assigns. Any provision of this Note may be waived by the party seeking enforcement thereof, which waiver shall be binding on all successors and assigns. Any waiver by the Company or the Holder must be in writing. Any waiver by the Company or the Holder of a breach of any provision of this Note shall not operate as or be construed to be a waiver of any other breach of such provision or of any breach of any other provision of this Note. The failure of the Company or the Holder to insist upon strict adherence to any term of this Note on one or more occasions shall not be considered a waiver or deprive that party of the right thereafter to insist upon strict adherence to that term or any other term of this Note on any other occasion. Holder may assign its rights and obligation hereunder to any Affiliate (as defined in the Security Agreement) thereof, provided that such Affiliate assumes the liabilities or obligations of Holder hereunder.

f) Severability. If any provision of this Note is invalid, illegal or unenforceable, the balance of this Note shall remain in effect, and if any provision is inapplicable to any Person or circumstance, it shall nevertheless remain applicable to all other Persons and circumstances.

g) Usury. If it shall be found that any interest or other amount deemed interest due hereunder violates the applicable law governing usury, the applicable rate of interest due hereunder shall automatically be lowered to equal the maximum rate of interest permitted under applicable law. The Company covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law or other law which would prohibit or forgive the Company from paying all or any portion of the principal of or interest on this Note as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Note, and the Company (to the extent it may lawfully do so) hereby expressly waives all benefits or advantage of any such law, and covenants that it will not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Holder, but will suffer and permit the execution of every such power as though no such law has been enacted.

h) Remedies, Characterizations, Other Obligations, Breaches and Injunctive Relief. The remedies provided in this Note shall be cumulative and in addition to all other remedies available under this Note and any of the other Loan Documents, at law or in equity (including a decree of specific performance and/or other injunctive relief), and nothing herein shall limit the Holder's right to pursue actual damages for any failure by the Company to comply with the terms of this Note. The Company covenants to the Holder that there shall be no characterization concerning this instrument other than as expressly provided herein. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the Holder and that the remedy at law for any such breach may be inadequate. The Company therefore agrees that, in the event of any such breach or threatened breach, the Holder shall be entitled, in addition to all other available remedies, to an injunction restraining any such breach or any such threatened breach, without the necessity of showing economic loss and without any bond or other security being required. The Company shall provide all information and documentation to the Holder that is requested by the Holder to enable the Holder to confirm the Company's compliance with the terms and conditions of this Note.

i) Next Business Day. Whenever any payment or other obligation hereunder shall be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day.

j) Headings. The headings contained herein are for convenience only, do not constitute a part of this Note and shall not be deemed to limit or affect any of the provisions hereof.

k) Secured Obligation. The obligations of the Company under this Note are secured by all assets of the Company pursuant to the Security Agreement between the Company and the Secured Party (as defined therein).

l) Disclosure. Upon receipt or delivery by the Company of any notice in accordance with the terms of this Note, unless the Company has in good faith determined that the matters relating to such notice do not constitute material, nonpublic information relating to the Company or its Subsidiaries, the Company shall within one (1) Business Days after such receipt or delivery publicly disclose such material, nonpublic information on a Current Report on Form 8-K or otherwise. In the event that the Company believes that a notice contains material, non-public information relating to the Company or its Subsidiaries, the Company shall so indicate to the Holder contemporaneously with delivery of such notice, and in the absence of any such indication, the Holder shall be allowed to presume that all matters relating to such notice do not constitute material, nonpublic information relating to the Company or its Subsidiaries.

m) Surrender of Note. Upon the payment (or conversion) in full of the outstanding principal amount of this Note, plus accrued but unpaid interest, liquidated damages and other amount owing in respects thereof, the Holder shall promptly surrender this Note to or as directed by the Company.

n) Fees. The Company hereby agrees to pay, on demand, all reasonable and documented out-of-pocket expenses incurred by the Holder in connection with the enforcement of this Note, the Security Agreement, the Subsidiary Guarantee and the Obligations and in connection with any amendment, including, without limitation, the reasonable fees and disbursements of outside counsel to the Holder.

o) Reimbursement of Fees. The Company will reimburse, on the date hereof, Holder for actual legal fees incurred in connection with the negotiation of this Note and the other Loan Documents in an amount not to exceed $7,500 plus VAT.

****

(Signature Pages Follow)

IN WITNESS WHEREOF, the Company has caused this Note to be duly executed by a duly authorized officer as of the date first above indicated.

COMPANY:

AYALA PHARMACEUTICALS, INC.

By: */s/ Kenneth A. Berlin*
Name: Kenneth A. Berlin
Title: President & Chief Executive Officer

Address (including email) for delivery of notices:

9 Deer Park Drive, Suite K-1
Monmouth Junction, New Jersey 08852

Email: Ken.b@ayalapharma.com

HOLDER:

ISRAEL BIOTECH FUND I, L.P.

By its general partner: Israel Biotech Fund GP

Partners, L.P.

By its general partner: I.B.F. Management, Ltd.

By: */s/ Ido Zairi*
Name: Ido Zairi
Title: Director

Address (including email) for delivery of notices:

4 Oppenheimer St. Rehovot Israel 7670104

sarit@ibf.fund

Exhibit A

Form of Warrant to Purchase Shares of Common Stock

(See attached.)

Exhibit A

NEITHER THIS SECURITY NOR THE SECURITIES FOR WHICH THIS SECURITY IS EXERCISABLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS. THIS SECURITY AND THE SECURITIES ISSUABLE UPON EXERCISE OF THIS SECURITY MAY BE PLEDGED IN CONNECTION WITH A BONA FIDE MARGIN ACCOUNT OR OTHER LOAN SECURED BY SUCH SECURITIES.

COMMON STOCK PURCHASE WARRANT
AYALA PHARMACEUTICALS, INC.

Warrant Shares: [●]_____ Issue Date: [●]

THIS COMMON STOCK PURCHASE WARRANT (the "Warrant") certifies that, for value received, ISRAEL BIOTECH FUND I, L.P. or its assigns (the "Holder") is entitled, upon the terms and subject to the limitations on exercise and the conditions hereinafter set forth, at any time on or after [●], 202[●] (the "Initial Exercise Date") and on or prior to 5:00 p.m. (New York City time) on [●], 202[●][1] (the "Termination Date"), but not thereafter, to subscribe for and purchase from AYALA PHARMACEUTICALS, INC., a Delaware corporation (the "Company"), up to [●][2] shares of common stock, par value $0.001 per share (the "Common Stock") (as subject to adjustment hereunder, the "Warrant Shares"). The purchase price of one share of Common Stock under this Warrant shall be equal to the Exercise Price, as defined in Section 2(b).

Section 11. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Senior Secured Convertible Promissory Note (the "Note"), dated [●], 2023, among the Company and the Holder. "Trading Day" means a day on which The Nasdaq Stock Market is open for trading.

[1] Note to Draft: 5-year term from the conversion of the promissory note.

[2] Note to Draft: To be equal to 125% of the number of shares received upon a conversion of the promissory note (but not involving a PIPE Transaction).

Section 12. Exercise.

a) Exercise of Warrant. Exercise of the purchase rights represented by this Warrant may be made, in whole or in part, at any time or times on or after the Initial Exercise Date and on or before the Termination Date by delivery to the Company of a duly executed facsimile copy (or .pdf copy via e-mail attachment) of the Notice of Exercise in the form annexed hereto (the "Notice of Exercise"). Within the earlier of (i) two (2) Trading Days and (ii) the number of Trading Days comprising the Standard Settlement Period (as defined in Section 2(d)(i) herein) following the date of exercise as aforesaid, the Holder shall deliver the unpaid portion of the aggregate Exercise Price for the Warrant Shares specified in the applicable Notice of Exercise by wire transfer or cashier's check drawn on a United States bank unless the cashless exercise procedure specified in Section 2(c) below is specified in the applicable Notice of Exercise. No ink-original Notice of Exercise shall be required, nor shall any medallion guarantee (or other type of guarantee or notarization) of any Notice of Exercise be required. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company until the Holder has purchased all of the Warrant Shares available hereunder and the Warrant has been exercised in full, in which case, the Holder shall surrender this Warrant to the Company for cancellation within three (3) Trading Days of the date on which the final Notice of Exercise is delivered to the Company. Partial exercises of this Warrant resulting in purchases of a portion of the total number of Warrant Shares available hereunder shall have the effect of lowering the outstanding number of Warrant Shares purchasable hereunder in an amount equal to the applicable number of Warrant Shares purchased. The Holder and the Company shall maintain records showing the number of Warrant Shares purchased and the date of such purchases. The Company shall deliver any objection to any Notice of Exercise within one (1) Trading Day of receipt of such notice. **The Holder and any assignee, by acceptance of this Warrant, acknowledge and agree that, by reason of the provisions of this paragraph, following the purchase of a portion of the Warrant Shares hereunder, the number of Warrant Shares available for purchase hereunder at any given time may be less than the amount stated on the face hereof.**

b) Exercise Price. The exercise price per share of Common Stock under this Warrant shall be $[●][3], subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. If at any time during the term of this Warrant, there is no effective registration statement registering, or no current prospectus available for, the resale of the Warrant Shares by the Holder, then this Warrant may also be exercised, in whole or in part, at such time by means of a "cashless exercise" in which the Holder shall be entitled to receive a number of Warrant Shares determined according to the following formula (a "Cashless Exercise"):

$$\text{Net Number} = \frac{(A \times B) - (A \times C)}{B}$$

For purposes of the foregoing formula:

i. the total number of shares with respect to which the Warrants are then being exercised.

[3] Note to Draft: To be 10% above the market price of the shares at the time the warrants are required to be issued.

ii. as applicable: (i) the VWAP on the Trading Day immediately preceding the date of the applicable Notice of Exercise if such Notice of Exercise is (1) both executed and delivered pursuant to Section 2(a) hereof on a day that is not a Trading Day or (2) both executed and delivered pursuant to Section 2(a) hereof on a Trading Day prior to the opening of "regular trading hours" (as defined in Rule 600(b)(64) of Regulation NMS promulgated under the federal securities laws) on such Trading Day, (ii) at the option of the Holder, either (y) the VWAP on the Trading Day immediately preceding the date of the applicable Notice of Exercise or (z) the Bid Price of the Common Stock on the principal Trading Market as reported by Bloomberg L.P. as of the time of the Holder's execution of the applicable Notice of Exercise if such Notice of Exercise is executed during "regular trading hours" on a Trading Day and is delivered within two (2) hours thereafter (including until two (2) hours after the close of "regular trading hours" on a Trading Day) pursuant to Section 2(a) hereof or (iii) the VWAP on the date of the applicable Notice of Exercise if the date of such Notice of Exercise is a Trading Day and such Notice of Exercise is both executed and delivered pursuant to Section 2(a) hereof after the close of "regular trading hours" on such Trading Day; and

iii. the Exercise Price then in effect for the applicable Warrant Shares at the time of such exercise.

If Warrant Shares are issued in such a cashless exercise, the parties acknowledge and agree that in accordance with Section 3(a)(9) of the Securities Act, the Warrant Shares shall take on the registered characteristics of the Warrants being exercised, including that the holding period of the Warrants being exercised may be tacked on to the holding period of the Warrant Shares. The Company agrees not to take any position contrary to this Section 2(c). Notwithstanding anything to the contrary, without limiting the rights of the Holder to receive cash payments pursuant to this Warrant, including Section 2(d)(i), Section 2(d)(iv) and Section 3 herein, in the event the Company does not have or maintain an effective registration statement, there are no circumstances that would require the Company to make any cash payments or net cash settle the purchase warrants to the holders.

"Bid Price" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the bid price of the Common Stock for the time in question (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if OTCQB or OTCQX is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on OTCQB or OTCQX as applicable, (c) if the Common Stock is not then listed or quoted for trading on OTCQB or OTCQX and if prices for the Common Stock are then reported in the "Pink Sheets" published by OTC Markets Group, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Warrants then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

"VWAP" means, for any date, the price determined by the first of the following clauses that applies: (a) if the Common Stock is then listed or quoted on a Trading Market, the daily volume weighted average price of the Common Stock for such date (or the nearest preceding date) on the Trading Market on which the Common Stock is then listed or quoted as reported by Bloomberg L.P. (based on a Trading Day from 9:30 a.m. (New York City time) to 4:02 p.m. (New York City time)), (b) if OTCQB or OTCQX is not a Trading Market, the volume weighted average price of the Common Stock for such date (or the nearest preceding date) on OTCQB or OTCQX as applicable, (c) if the Common Stock is not then listed or quoted for trading on OTCQB or OTCQX and if prices for the Common Stock are then reported in the "Pink Sheets" published by OTC Markets Group, Inc. (or a similar organization or agency succeeding to its functions of reporting prices), the most recent bid price per share of the Common Stock so reported, or (d) in all other cases, the fair market value of a share of Common Stock as determined by an independent appraiser selected in good faith by the Holders of a majority in interest of the Warrants then outstanding and reasonably acceptable to the Company, the fees and expenses of which shall be paid by the Company.

Notwithstanding anything herein to the contrary, on the Termination Date, this Warrant shall be automatically exercised via cashless exercise pursuant to this Section 2(c).

d) Mechanics of Exercise.

(1) Delivery of Warrant Shares Upon Exercise. The Company shall cause the Warrant Shares purchased hereunder to be transmitted by Continental Stock Transfer and Trust Company, the current transfer agent of the Company, with a mailing address of 17 Battery Place, 8th Floor, New York, NY 10004, or any successor transfer agent of the Company (the "Transfer Agent") to the Holder by crediting the account of the Holder's or its designee's balance account with The Depository Trust Company through its Deposit or Withdrawal at Custodian system ("DWAC") if the Company is then a participant in such system and either (A) there is an effective registration statement permitting the issuance of the Warrant Shares to or resale of the Warrant Shares by the Holder or (B) the Warrant is being exercised via cashless exercise, or (C) the Warrant Shares are eligible for resale by the Holder without volume or manner-of-sale limitations and current information requirements are met at such time pursuant to Rule 144, and otherwise by physical delivery of a certificate, registered in the Company's share register in the name of the Holder or its designee, for the number of Warrant Shares to which the Holder is entitled pursuant to such exercise to the address specified by the Holder in the Notice of Exercise by the date that is the earlier of (i) two (2) Trading Days and (ii) the number of Trading Days comprising the Standard Settlement Period after the delivery to the Company of the Notice of Exercise (such date, the "Warrant Share Delivery Date"). Upon delivery of the Notice of Exercise, the Holder shall be deemed for all corporate purposes to have become the holder of record of the Warrant Shares with respect to which this Warrant has been exercised, irrespective of the date of delivery of the Warrant Shares, provided that payment of the aggregate Exercise Price (other than in the case of a cashless exercise) is received within the earlier of (i) two (2) Trading Days and (ii) the number of Trading Days comprising the Standard Settlement Period following delivery of the Notice of Exercise. The Company agrees to maintain a transfer agent that is a participant in the FAST program so long as this Warrant remains outstanding and exercisable. As used herein, "Standard Settlement Period" means the standard settlement period, expressed in a number of Trading Days, on the Company's primary Trading Market with respect to the Common Stock as in effect on the date of delivery of the Notice of Exercise.

(2) Delivery of New Warrants Upon Exercise. If this Warrant shall have been exercised in part, the Company shall, at the request of the Holder and upon surrender of this Warrant certificate, at the time of delivery of the Warrant Shares, deliver to the Holder a new Warrant evidencing the rights of the Holder to purchase the unpurchased Warrant Shares called for by this Warrant, which new Warrant shall in all other respects be identical with this Warrant.

(3) Rescission Rights. If the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares pursuant to Section 2(d)(i) by the Warrant Share Delivery Date, then the Holder will have the right to rescind such exercise.

(4) Compensation for Buy-In on Failure to Timely Deliver Warrant Shares Upon Exercise. In addition to any other rights available to the Holder, if the Company fails to cause the Transfer Agent to transmit to the Holder the Warrant Shares in accordance with the provisions of Section 2(d)(i) above pursuant to an exercise on or before the Warrant Share Delivery Date, and if after such date the Holder is required by its broker to purchase (in an open market transaction or otherwise) or the Holder's brokerage firm otherwise purchases, shares of Common Stock to deliver in satisfaction of a sale by the Holder of the Warrant Shares which the Holder anticipated receiving upon such exercise (a "Buy-In"), then the Company shall (A) pay in cash to the Holder the amount, if any, by which (x) the Holder's total purchase price (including brokerage commissions, if any) for the shares of Common Stock so purchased exceeds (y) the amount obtained by multiplying (1) the number of Warrant Shares that the Company was required to deliver to the Holder in connection with the exercise at issue times (2) the price at which the sell order giving rise to such purchase obligation was executed, and (B) at the option of the Holder, either reinstate the portion of the Warrant and equivalent number of Warrant Shares for which such exercise was not honored (in which case such exercise shall be deemed rescinded) or deliver to the Holder the number of shares of Common Stock that would have been issued had the Company timely complied with its exercise and delivery obligations hereunder. For example, if the Holder purchases Common Stock having a total purchase price of $11,000 to cover a Buy-In with respect to an attempted exercise of shares of Common Stock with an aggregate sale price giving rise to such purchase obligation of $10,000, under clause (A) of the immediately preceding sentence the Company shall be required to pay the Holder $1,000. The Holder shall provide the Company written notice indicating the amounts payable to the Holder in respect of the Buy-In and, upon request of the Company, evidence of the amount of such loss. Nothing herein shall limit the Holder's right to pursue any other remedies available to it hereunder, at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief with respect to the Company's failure to timely deliver shares of Common Stock upon exercise of the Warrant as required pursuant to the terms hereof.

(5) No Fractional Shares or Scrip. No fractional shares or scrip representing fractional shares shall be issued upon the exercise of this Warrant. As to any fraction of a share which the Holder would otherwise be entitled to purchase upon such exercise, the Company shall, at its election, either pay a cash adjustment in respect of such final fraction in an amount equal to such fraction multiplied by the Exercise Price or round up to the next whole share.

(6) Charges, Taxes and Expenses. Issuance of Warrant Shares shall be made without charge to the Holder for any issue or transfer tax or other incidental expense in respect of the issuance of such Warrant Shares, all of which taxes and expenses shall be paid by the Company, and such Warrant Shares shall be issued in the name of the Holder or in such name or names as may be directed by the Holder; provided, however, that in the event that Warrant Shares are to be issued in a name other than the name of the Holder, this Warrant when surrendered for exercise shall be accompanied by the Assignment Form attached hereto duly executed by the Holder and the Company may require, as a condition thereto, the payment of a sum sufficient to reimburse it for any transfer tax incidental thereto. The Company shall pay all Transfer Agent fees required for same-day processing of any Notice of Exercise and all fees to the Depository Trust Company (or another established clearing corporation performing similar functions) required for same-day electronic delivery of the Warrant Shares.

(7) Closing of Books. The Company will not close its stockholder books or records in any manner which prevents the timely exercise of this Warrant, pursuant to the terms hereof.

Section 13. Certain Adjustments.

a) Stock Dividends and Splits. If the Company, at any time while this Warrant is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions on shares of its Common Stock or any other equity or equity equivalent securities payable in shares of Common Stock (which, for avoidance of doubt, shall not include any shares of Common Stock issued by the Company upon exercise of this Warrant), (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues by reclassification of shares of Common Stock any shares of capital stock of the Company, then in each case the Exercise Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding immediately before such event and of which the denominator shall be the number of shares of Common Stock outstanding immediately after such event, and the number of shares issuable upon exercise of this Warrant shall be proportionately adjusted such that the aggregate Exercise Price of this Warrant shall remain unchanged. Any adjustment made pursuant to this Section 3(a) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

b) Subsequent Rights Offerings. In addition to any adjustments pursuant to Section 3(a) above, if at any time the Company grants, issues or sells any Common Stock Equivalents or rights to purchase stock, warrants, securities or other property pro rata to the record holders of any class of shares of Common Stock (the "Purchase Rights"), then the Holder will be entitled to acquire, upon the terms applicable to such Purchase Rights, the aggregate Purchase Rights which the Holder could have acquired if the Holder had held the number of shares of Common Stock acquirable upon complete exercise of this Warrant (without regard to any limitations on exercise hereof) immediately before the date on which a record is taken for the grant, issuance or sale of such Purchase Rights, or, if no such record is taken, the date as of which the record holders of shares of Common Stock are to be determined for the grant, issue or sale of such Purchase Rights.

c) Fundamental Transaction. If, at any time while this Warrant is outstanding, (i) the Company, directly or indirectly, in one or more related transactions effects any merger or consolidation of the Company with or into another Person, (ii) the Company, directly or indirectly, effects any sale, lease, license, assignment, transfer, conveyance or other disposition of all or substantially all of its assets in one or a series of related transactions, (iii) any, direct or indirect, purchase offer, tender offer or exchange offer (whether by the Company or another Person) is completed pursuant to which holders of shares of Common Stock are permitted to sell, tender or exchange their shares for other securities, cash or property and has been accepted by the holders of 50% or more of the outstanding shares of Common Stock, (iv) the Company, directly or indirectly, in one or more related transactions effects any reclassification, reorganization or recapitalization of the shares of Common Stock or any compulsory share exchange pursuant to which the shares of Common Stock are effectively converted into or exchanged for other securities, cash or property, or (v) the Company, directly or indirectly, in one or more related transactions consummates a stock or share purchase agreement or other business combination (including, without limitation, a reorganization, recapitalization, spin-off or scheme of arrangement) with another Person or group of Persons whereby such other Person or group acquires more than 50% of the outstanding shares of Common Stock (not including any shares of Common Stock held by the other Person or other Persons making or party to, or associated or affiliated with the other Persons making or party to, such stock or share purchase agreement or other business combination) (each a "Fundamental Transaction" except that the transactions contemplated by the Merger Agreement, and, for the avoidance of doubt, any PIPE Transaction, shall not be considered a Fundamental Transaction), then, upon any subsequent exercise of this Warrant, the Holder shall have the right to receive, for each Warrant Share that would have been issuable upon such exercise immediately prior to the occurrence of such Fundamental Transaction, at the option of the Holder, the number of shares of common stock of the successor or acquiring corporation or of the Company, if it is the surviving corporation, and any additional consideration (the "Alternate Consideration") receivable as a result of such Fundamental Transaction by a holder of the number of shares of Common Stock for which this Warrant is exercisable immediately prior to such Fundamental Transaction. For purposes of any such exercise, the determination of the Exercise Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one share of Common Stock in such Fundamental Transaction, and the Company shall apportion the Exercise Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of shares of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any exercise of this Warrant following such Fundamental Transaction. The Company shall cause any successor entity in a Fundamental Transaction in which the Company is not the survivor (the "Successor Entity") to assume in writing all of the obligations of the Company under this Warrant and the other Loan Documents in accordance with the provisions of this Section 3(c) pursuant to written agreements in form and substance reasonably satisfactory to the Holder prior to such Fundamental Transaction and shall, at the option of the Holder, deliver to the Holder in exchange for this Warrant a security of the Successor Entity evidenced by a written instrument substantially similar in form and substance to this Warrant which is exercisable for a corresponding number of shares of capital stock of such Successor Entity (or its parent entity) equivalent to the shares of Common Stock acquirable and receivable upon exercise of this Warrant (without regard to any limitations on the exercise of this Warrant) prior to such Fundamental Transaction, and with an exercise price which applies the exercise price hereunder to such shares of capital stock (but taking into account the relative value of the shares of Common Stock pursuant to such Fundamental Transaction and the value of such shares of capital stock, such number of shares of capital stock and such exercise price being for the purpose of protecting the economic value of this Warrant immediately prior to the consummation of such Fundamental Transaction), and which is reasonably satisfactory in form and substance to the Holder. Upon the occurrence of any such Fundamental Transaction, the Successor Entity shall succeed to, and be substituted for (so that from and after the date of such Fundamental Transaction, the provisions of this Warrant and the other Loan Documents referring to the "Company" shall refer instead to the Successor Entity), and may exercise every right and power of the Company and shall assume all of the obligations of the Company under this Warrant and the other Loan Documents with the same effect as if such Successor Entity had been named as the Company herein.

d) During such time as this Warrant is outstanding, if the Company shall declare or make any dividend or other distribution of its assets (or rights to acquire its assets) to holders of Common Stock, by way of return of capital or otherwise (including, without limitation, any distribution of cash, shares or other securities, property or options by way of a dividend, spin off, reclassification, corporate rearrangement, scheme of arrangement or other similar transaction) (a "Distribution"), at any time after the issuance of this Warrant, then, in each such case, the Holder shall be entitled to participate in such Distribution to the same extent that the Holder would have participated therein if the Holder had held the number of Common Stock acquirable upon complete exercise of this Warrant immediately before the date of which a record is taken for such Distribution, or, if no such record is taken, the date as of which the record holders of Common Stock are to be determined for the participation in such Distribution.

e) Calculations. All calculations under this Section 3 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be. For purposes of this Section 3, the number of shares of Common Stock deemed to be issued and outstanding as of a given date shall be the sum of the number of shares of Common Stock (excluding treasury shares, if any) issued and outstanding.

f) Notice to Holder.

(1) Adjustment to Exercise Price. Whenever the Exercise Price is adjusted pursuant to any provision of this Section 3, the Company shall promptly deliver to the Holder by facsimile or email a notice setting forth the Exercise Price after such adjustment and any resulting adjustment to the number of Warrant Shares and setting forth a brief statement of the facts requiring such adjustment.

(2) Notice to Allow Exercise by Holder. If (A) the Company shall declare a dividend (or any other distribution in whatever form) on the shares of Common Stock, (B) the Company shall declare a redemption of the shares of Common Stock, (C) the Company shall authorize the granting to all holders of the shares of Common Stock rights or warrants to subscribe for or purchase any capital stock of any class or of any rights, (D) the approval of any stockholders of the Company shall be required in connection with any reclassification of the shares of Common Stock, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, or any compulsory share exchange whereby the shares of Common Stock are converted into other securities, cash or property, or (E) the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company, then, in each case, the Company shall cause to be delivered by facsimile or email to the Holder at its last facsimile number or email address as it shall appear upon the Warrant Register of the Company, at least 15 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the shares of Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or stock exchange is expected to become effective or close, and the date as of which it is expected that holders of the shares of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or stock exchange; provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. To the extent that any notice provided in this Warrant constitutes, or contains, material, non-public information regarding the Company, the Company shall simultaneously file such notice with the Commission pursuant to a Current Report on Form 8-K. The Holder shall remain entitled to exercise this Warrant during the period commencing on the date of such notice to the effective date of the event triggering such notice except as may otherwise be expressly set forth herein.

Section 14. Transfer of Warrant.

a) Transferability. This Warrant and all rights hereunder (including, without limitation, any registration rights) are transferable, in whole or in part, upon surrender of this Warrant at the principal office of the Company or its designated agent, together with a written assignment of this Warrant substantially in the form attached hereto duly executed by the Holder or its agent or attorney and funds sufficient to pay any transfer taxes payable upon the making of such transfer. Upon such surrender and, if required, such payment, the Company shall execute and deliver a new Warrant or Warrants in the name of the assignee or assignees, as applicable, and in the denomination or denominations specified in such instrument of assignment, and shall issue to the assignor a new Warrant evidencing the portion of this Warrant not so assigned, and this Warrant shall promptly be cancelled. Notwithstanding anything herein to the contrary, the Holder shall not be required to physically surrender this Warrant to the Company unless the Holder has assigned this Warrant in full, in which case, the Holder shall surrender this Warrant to the Company within three (3) Trading Days of the date on which the Holder delivers an assignment form to the Company assigning this Warrant in full. The Warrant, if properly assigned in accordance herewith, may be exercised by a new holder for the purchase of Warrant Shares without having a new Warrant issued.

b) New Warrants. This Warrant may be divided or combined with other Warrants upon presentation hereof at the aforesaid office of the Company, together with a written notice specifying the names and denominations in which new Warrants are to be issued, signed by the Holder or its agent or attorney. Subject to compliance with Section 4(a), as to any transfer which may be involved in such division or combination, the Company shall execute and deliver a new Warrant or Warrants in exchange for the Warrant or Warrants to be divided or combined in accordance with such notice. All Warrants issued on transfers or exchanges shall be dated the Issue Date of this Warrant and shall be identical with this Warrant except as to the number of Warrant Shares issuable pursuant thereto.

c) Warrant Register. The Company shall register this Warrant, upon records to be maintained by the Company for that purpose (the "Warrant Register"), in the name of the record Holder hereof from time to time. The Company may deem and treat the registered Holder of this Warrant as the absolute owner hereof for the purpose of any exercise hereof or any distribution to the Holder, and for all other purposes, absent actual notice to the contrary.

Section 15. Miscellaneous.

a) No Rights as Stockholder Until Exercise. This Warrant does not entitle the Holder to any voting rights, dividends or other rights as a stockholder of the Company prior to the exercise hereof as set forth in Section 2(d)(i), except as expressly set forth in Section 3.

b) Loss, Theft, Destruction or Mutilation of Warrant. The Company covenants that upon receipt by the Company of evidence reasonably satisfactory to it of the loss, theft, destruction or mutilation of this Warrant or any stock certificate relating to the Warrant Shares, and in case of loss, theft or destruction, of indemnity or security reasonably satisfactory to it (which, in the case of the Warrant, shall not include the posting of any bond), and upon surrender and cancellation of such Warrant or stock certificate, if mutilated, the Company will make and deliver a new Warrant or stock certificate of like tenor and dated as of such cancellation, in lieu of such Warrant or stock certificate.

c) Saturdays, Sundays, Holidays, etc. If the last or appointed day for the taking of any action or the expiration of any right required or granted herein shall not be a Business Day, then, such action may be taken or such right may be exercised on the next succeeding Business Day.

d) Authorized Shares.

The Company covenants that, during the period the Warrant is outstanding, it will reserve from its authorized and unissued shares of Common Stock a sufficient number of shares to provide for the issuance of the Warrant Shares upon the exercise of any purchase rights under this Warrant. The Company further covenants that its issuance of this Warrant shall constitute full authority to its officers who are charged with the duty of issuing the necessary Warrant Shares upon the exercise of the purchase rights under this Warrant. The Company will take all such reasonable action as may be necessary to assure that such Warrant Shares may be issued as provided herein without violation of any applicable law or regulation, or of any requirements of the Trading Market upon which the shares of Common Stock may be listed. The Company covenants that all Warrant Shares which may be issued upon the exercise of the purchase rights represented by this Warrant will, upon exercise of the purchase rights represented by this Warrant and payment for such Warrant Shares in accordance herewith, be duly authorized, validly issued, fully paid and nonassessable and free from all taxes, liens and charges created by the Company in respect of the issue thereof (other than taxes in respect of any transfer occurring contemporaneously with such issue).

Except and to the extent as waived or consented to by the Holder, the Company shall not by any action, including, without limitation, amending its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such actions as may be necessary or appropriate to protect the rights of Holder as set forth in this Warrant against impairment. Without limiting the generality of the foregoing, the Company will (i) not increase the par value of any Warrant Shares above the amount payable therefor upon such exercise immediately prior to such increase in par value, (ii) take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares upon the exercise of this Warrant and (iii) use commercially reasonable efforts to obtain all such authorizations, exemptions or consents from any public regulatory body having jurisdiction thereof, as may be, necessary to enable the Company to perform its obligations under this Warrant.

Before taking any action which would result in an adjustment in the number of Warrant Shares for which this Warrant is exercisable or in the Exercise Price, the Company shall obtain all such authorizations or exemptions thereof, or consents thereto, as may be necessary from any public regulatory body or bodies having jurisdiction thereof.

e) Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Warrant shall be determined in accordance with the provisions of the Note.

f) Restrictions. The Holder acknowledges that the Warrant Shares acquired upon the exercise of this Warrant, if not registered, and the Holder does not utilize cashless exercise, will have restrictions upon resale imposed by state and federal securities laws.

g) Nonwaiver and Expenses. No course of dealing or any delay or failure to exercise any right hereunder on the part of Holder shall operate as a waiver of such right or otherwise prejudice the Holder's rights, powers or remedies, notwithstanding the fact that the Holder's right to exercise this Warrant terminates on the Termination Date. If the Company willfully and knowingly fails to comply with any provision of this Warrant or the Note, which results in any material damages to the Holder, the Company shall pay to the Holder such amounts as shall be sufficient to cover any costs and expenses including, but not limited to, reasonable attorneys' fees, including those of appellate proceedings, incurred by the Holder in collecting any amounts due pursuant hereto or in otherwise enforcing any of its rights, powers or remedies hereunder.

h) Notices. Any notice, request or other document required or permitted to be given or delivered to the Holder by the Company shall be delivered in accordance with the notice provisions of the Note.

i) Limitation of Liability. No provision hereof, in the absence of any affirmative action by the Holder to exercise this Warrant to purchase Warrant Shares, and no enumeration herein of the rights or privileges of the Holder, shall give rise to any liability of the Holder for the purchase price of any Common Stock or as a stockholder of the Company, whether such liability is asserted by the Company or by creditors of the Company.

j) Remedies. The Holder, in addition to being entitled to exercise all rights granted by law, including recovery of damages, will be entitled to specific performance of its rights under this Warrant. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of the provisions of this Warrant and hereby agrees to waive and not to assert the defense in any action for specific performance that a remedy at law would be adequate.

k) Successors and Assigns. Subject to applicable securities laws, this Warrant and the rights and obligations evidenced hereby shall inure to the benefit of and be binding upon the successors and permitted assigns of the Company and the successors and permitted assigns of Holder. The provisions of this Warrant are intended to be for the benefit of any Holder from time to time of this Warrant and shall be enforceable by the Holder or holder of Warrant Shares.

l) Amendment. This Warrant may be modified or amended or the provisions hereof waived with the written consent of the Company and the Holder.

m) Severability. Wherever possible, each provision of this Warrant shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Warrant shall be prohibited by or invalid under applicable law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Warrant.

n) Headings. The headings used in this Warrant are for the convenience of reference only and shall not, for any purpose, be deemed a part of this Warrant.

(Signature Page Follows)

IN WITNESS WHEREOF, the Company has caused this Warrant to be executed by its officer thereunto duly authorized as of the date first above indicated.

AYALA PHARMACEUTICALS, INC.

By: _____
Name:
Title:

NOTICE OF EXERCISE

TO: AYALA PHARMACEUTICALS, INC.

(1) The undersigned hereby elects to purchase _____ Warrant Shares of the Company pursuant to the terms of the attached Warrant (only if exercised in full), and tenders herewith payment of the exercise price in full, together with all applicable transfer taxes, if any.

(2) Payment shall take the form of (check applicable box):

[ ] in lawful money of the United States; or

[ ] if permitted the cancellation of such number of Warrant Shares as is necessary, in accordance with the formula set forth in subsection 2(c), to exercise this Warrant with respect to the maximum number of Warrant Shares purchasable pursuant to the cashless exercise procedure set forth in subsection 2(c).

(3) Please issue said Warrant Shares in the name of the undersigned or in such other name as is specified below:

The Warrant Shares shall be delivered to the following DWAC Account Number:

_____

_____

_____

(4) Accredited Investor. The undersigned is an "accredited investor" as defined in Regulation D promulgated under the Securities Act of 1933, as amended.

_____

_____

[SIGNATURE OF HOLDER]
Name of Investing Entity:

_____
Signature of Authorized Signatory of Investing Entity:

_____
Name of Authorized Signatory:

_____
Title of Authorized Signatory:

_____
Date:

Exhibit B

ASSIGNMENT FORM

(To assign the foregoing Warrant, execute this form and supply required information. Do not use this form to purchase shares.)

FOR VALUE RECEIVED, the foregoing Warrant and all rights evidenced thereby are hereby assigned to

Name: _____
(Please Print)

Address: _____
(Please Print)

Phone Number: _____
Email Address: _____
Dated: _____ __, _____
Holder's Signature:_____
Holder's Address:_____

Exhibit 10.1

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (this "Agreement" or this "Security Agreement"), dated August 7, 2023, by and between AYALA PHARMACEUTICALS, INC., a Delaware corporation, with headquarters located at 9 Deer Park Drive, Suite K-1, Monmouth Junction, New Jersey 08852 (the "Debtor"), and ISRAEL BIOTECH FUND I, L.P. (the "Secured Party").

Debtor hereby agrees in favor of Secured Party as follows:

1. In consideration for loans made or to be made to Debtor evidenced by the Senior Secured Convertible Promissory Note of Debtor payable to the order of Secured Party (such Senior Secured Convertible Promissory Note, as amended, modified, supplemented, replaced or substituted from time to time, being herein referred to as the "Note"), Debtor hereby grants to Secured Party a continuing security interest in, lien upon and a right of setoff against, and Debtor hereby assigns to Secured Party, all of Debtor's right, title and interest in and to the Collateral described in Section 2, to secure the full and prompt payment, performance and observance of all present and future indebtedness, obligations, liabilities and agreements of any kind of Debtor to Secured Party arising under or in connection with the Note, which are existing now or hereafter (all of the foregoing being herein referred to as the "Obligations").

2. The Collateral is described on Schedule A annexed hereto as part hereof and on any separate schedule(s) identified as Collateral at any time or from time to time furnished by Debtor to Secured Party (all of which are hereby deemed part of this Security Agreement) and includes claims of Debtor against third parties for loss or damage to or destruction of any Collateral.

3. Debtor hereby warrants, represents, covenants and agrees (as of the date hereof and so long as any Obligation remains outstanding) that:

(a) the chief executive office of Debtor, the books and records relating to the Collateral and the Collateral are located at 9 Deer Park Drive, Suite K-1, Monmouth Junction, New Jersey 08852, and Debtor will not change any of the same, change its name or conduct the business under any trade, assumed or fictitious name without providing at least 14 days' prior written notice of same to Secured Party (and in the case of the location of Collateral, will from time to time notify Secured Party of the locations thereof), or merge or consolidate with any person without prior written notice to and consent of Secured Party;

(b) the Collateral is and will be used in the business of the Debtor;

(c) the Collateral is now, and at all times will be, owned by Debtor free and clear of all Liens, except for Permitted Liens;

(d) Debtor will not abandon or assign, sell, lease, transfer or otherwise dispose of any Collateral, other than in the ordinary course of Debtor's business, nor will Debtor suffer or permit any of the same to occur with respect to, any Collateral, without prior written notice to and written consent of the Secured Party;

(e) Debtor will make payment or will provide for the payment, when due, of all taxes, assessments or contributions or other public or private charges which have been or may be levied or assessed against Debtor, with respect to the Collateral or with respect to any wages or salaries paid by the Debtor (except for any taxes, assessments, contributions or charges being contested in good faith and as to which adequate reserves have been made), and will deliver to Secured Party, on demand, certificates or other evidence satisfactory to Secured Party attesting thereto;

(f) Debtor will use the Collateral for lawful purposes only, with all reasonable care and caution and in conformity in all material respects with all applicable laws, ordinances and regulations;

(g) Debtor will, at Debtor's sole cost and expense, keep the Collateral in good order, repair, running condition and in substantially the same condition as on the date hereof, reasonable wear and tear excepted, and Debtor will not, without the prior written consent of the Secured Party, alter or remove any identifying symbol or number upon any of the Collateral;

(h) Secured Party shall at all times have reasonable access to and right of inspection of any Collateral (upon reasonable prior notice and during regular business hours) and any papers, instruments and records pertaining thereto (and the right to make extracts from and to receive from Debtor originals or true copies of such records, papers and instruments upon request therefor) and Debtor hereby grants to Secured Party a security interest in all such records, papers and instruments to secure the payment, performance and observance of the Obligations;

(i) Debtor will, at its sole cost and expense, perform all acts and execute all documents reasonably requested by Secured Party from time to time to evidence, perfect, maintain or enforce Secured Party's security interest granted herein or otherwise in furtherance of the provisions of this Security Agreement;

(j) at any time and from time to time, Debtor shall, upon Secured Party's reasonable request, at its sole cost and expense, execute and deliver, or cause to be executed and delivered, to Secured Party such financing statements pursuant to the Uniform Commercial Code ("UCC"), applications for certificate of title and other papers, documents or instruments as may reasonably be requested by Secured Party in connection with this Security Agreement, and to the extent permitted by applicable law, Debtor hereby authorizes Secured Party to execute and file at any time and from time to time one or more financing statements or copies thereof or of this Security Agreement with respect to the Collateral signed only by Secured Party, and Debtor agrees to pay (or cause to be paid) any recording tax or similar tax arising in connection with the filing of any such financing statement and further agrees to pay any additional recording or similar tax which is incurred in connection therewith;

(k) Debtor assumes all responsibility and liability arising from the Collateral;

(l) Secured Party may, at any time and from time to time, for the account of Debtor, pay any amount or do any act required of Debtor hereunder that Debtor fails to do or pay, and any such payment shall be deemed an advance by Secured Party to Debtor payable on demand together with interest at the highest rate then payable on any of the Obligations;

(m) Debtor will promptly pay Secured Party for any and all reasonable and documented out-of-pocket sums, costs, and expenses which Secured Party may pay or incur pursuant to the provisions of this Security Agreement or in perfecting, defending, protecting or enforcing this Security Agreement or the security interest granted herein or in enforcing payment of the Obligations or otherwise in connection with the provisions hereof, including, but not limited to, all search, filing and recording fees, taxes, fees and expenses for the service and filing of papers, premium on bonds and undertakings, fees of marshals, sheriffs, custodians, auctioneers, court costs, collection charges, travel expenses, and reasonable attorneys' fees, all of which together with interest at the highest rate then payable on any of the Obligations, shall be part of the Obligations and be payable on demand.

(n) the Collateral is now and shall remain personal or intangible property, and Debtor will not permit any other types of Collateral to become a fixture without prior written notice to and written consent of Secured Party and without first making all arrangements, and delivering, or causing to be delivered, to Secured Party all instruments and documents, including, without limitation, waivers and subordination agreements by any landlords or mortgagees, requested by and reasonably satisfactory to Secured Party to preserve and protect the primary security interest granted herein against all persons;

(o) Debtor shall cause each of its U.S. Significant Subsidiaries formed or acquired on or subsequent to the date hereof to become a Guarantor for all purposes of the Subsidiary Guarantee delivered by Old Ayala, Inc. to Secured Party, by executing and delivering to Secured Party a joinder guarantee in the form acceptable to Secured Party.

(p) For purposes hereof, "Permitted Liens" mean (i) Liens for taxes not yet delinquent or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been established in accordance with GAAP ; (ii) Liens in respect of property or assets imposed by law which were incurred in the ordinary course of business, such as carriers', warehousemen's, materialmen's and mechanics' Liens and other similar Liens arising in the ordinary course of business which are not yet due or delinquent or which are being contested in good faith and by appropriate proceedings (and which proceedings are sufficient to prevent imminent foreclosure of such liens); (iii) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security incurred in the ordinary course of business, whether pursuant to statutory requirements, common law or consensual arrangements; (iv) Liens created hereby; (v) Liens securing capital lease obligations (and attaching only to the property being leased), and (vi) any other Liens that are consented to in writing by the Secured Party. For purposes hereof, "Lien" or "liens" means a lien, mortgage, charge, pledge, security interest, encumbrance, right of first refusal, preemptive right or other restriction, or other clouds on title.

4. The term "Event of Default" as used in this Security Agreement shall mean any Event of Default, as such term is defined in the Note.

5. Upon the occurrence and during the continuance of any Event of Default, Secured Party may, without notice to (except as herein set forth) or demand upon Debtor, declare any Obligations immediately due and payable, and Secured Party shall have the following rights and remedies (to the extent permitted by applicable law) in addition to all rights and remedies of a Secured Party under the UCC or of Secured Party under the Obligations, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively or concurrently:

(a) Secured Party may, at any time and from time to time, with or without judicial process or the aid and assistance of others, (i) enter upon any premises in which any Collateral may be located and, without resistance or interference by Debtor, take possession of the Collateral, (ii) dispose of any part or all of the Collateral on any such premises, (iii) require Debtor to assemble and make available to Secured Party at the expense of Debtor any part or all of the Collateral at any place and time designated by Secured Party which is reasonably convenient to both parties, (iv) remove any part or all of the Collateral from any such premises for the purpose of effecting sale or other disposition thereof (and if any of the Collateral consists of motor vehicles, Secured Party may use Debtor's license plates), and (v) sell, resell, lease, assign and deliver, grant options for or otherwise dispose of any part or all of the Collateral in its then condition or following any commercially reasonable preparation or processing, at public or private sale or proceedings or otherwise, by one or more contracts, in one or more parcels, at the same or different times, with or without having the Collateral at the place of sale or other disposition, for cash and/or credit, and upon any terms, at such place(s) and time(s) and to such person(s) as Secured Party deems best, all without demand, notice or advertisement whatsoever, except that where an applicable statute requires reasonable notice of sale or other disposition, Debtor hereby agrees that the sending of ten days' notice by overnight mail, postage prepaid, to Debtor in accordance with Section 13 of this Security Agreement shall be deemed reasonable notice thereof. If any Collateral is sold by Secured Party upon credit or for future delivery, Secured Party shall not be liable for the failure of the purchaser to pay for same, and in such event Secured Party may resell or otherwise dispose of such Collateral. Secured Party may buy any part or all of the Collateral at any public sale and, if any part or all of the Collateral is of a type customarily sold in a recognized market or is of the type which is the subject of widely distributed standard price quotations, Secured Party may buy such Collateral at private sale and in each case may make payment therefor by any means, whether by credit against the Obligations or otherwise. Secured Party may apply the cash proceeds actually received from any sale or other disposition to the reasonable and documented expenses of retaking, holding, preparing for sale, selling, leasing and the like, to reasonable and documented external attorneys' fees and all legal, travel and other expenses which may be incurred by Secured Party in attempting to collect the Obligations, proceed against the Collateral or enforce this Security Agreement or in the prosecution or defense of any action or proceeding related to the Obligations, the Collateral or this Security Agreement; and then to the Obligations in such order and as to principal or interest as Secured Party may desire; and Debtor shall remain liable and will pay Secured Party on demand for any deficiency remaining, together with interest thereon at the highest rate then payable on the Obligations and the balance of any expenses unpaid, with any surplus to be paid to Debtor, subject to any duty of Secured Party imposed by law to the holder of any subordinate security interest in the Collateral known to Secured Party.

(b) Secured Party may, at any time and from time to time, as appropriate, after the occurrence and during the continuance of an Event of Default set off and apply to the payment of the Obligations, any Collateral in or coming into the possession of Secured Party or their agents, without notice to Debtor and in such manner as Secured Party may in their discretion determine.

(c) Secured Party may, at any time and from time to time upon the occurrence and during the continuance of an Event of Default, demand, sue for, collect or receive any money or property at any time payable or receivable on account of or in exchange for, or make any compromise or settlement deemed desirable by Secured Party with respect to, any Collateral, and/or extend the time of payment, arrange for payment in installments, or otherwise modify the terms of, or release, any of the Obligations and/or the Collateral, or any obligor, maker, endorser, acceptor, surety or guarantor of, or any party to, any of the Obligations or the Collateral, all without notice to or consent by Debtor and without otherwise discharging or affecting the Obligations or the Collateral.

(d) upon the occurrence and during the continuance of an Event of Default, at Secured Party's option and following written notice to Debtor, any proceeds of the Collateral received by Debtor shall not be commingled with other property of Debtor, but shall be segregated, held by Debtor in trust for Secured Party, and promptly delivered to Secured Party in the form received, duly endorsed in blank where appropriate to effectuate the provisions hereof, the same to be held by Secured Party as additional Collateral hereunder or, at Secured Party's option, to be applied to payment of the Obligations, whether or not due and in any order.

(e) upon the occurrence and during the continuance of an Event of Default, at Secured Party's option and following written notice to Debtor, any proceeds of the Collateral received by Debtor shall not be commingled with other property of Debtor, but shall be segregated, held by Debtor in trust for Secured Party, and promptly delivered to Secured Party in the form received, duly endorsed in blank where appropriate to effectuate the provisions hereof, the same to be held by Secured Party as additional Collateral hereunder or, at Secured Party's option, to be applied to payment of the Obligations, whether or not due and in any order.

6. Secured Party's prior recourse to any Collateral shall not constitute a condition of any demand, suit or proceeding for payment or collection of the Obligations nor shall any demand, suit or proceeding for payment or collection of the Obligations constitute a condition of any recourse by Secured Party to the Collateral. Any suit or proceeding by Secured Party to recover any of the Obligations shall not be deemed a waiver of, or bar against, subsequent proceedings by Secured Party with respect to any other Obligations and/or with respect to the Collateral. No act, omission or delay by Secured Party shall constitute a waiver of their rights and remedies hereunder or otherwise. No single or partial waiver by Secured Party of any covenant, warranty, representation, Event of Default or right or remedy which they may have shall operate as a waiver of any other covenant, warranty, representation, Event of Default, right or remedy or of the same covenant, warranty, representation, Event of Default, right or remedy on a future occasion. Debtor hereby waives presentment, notice of dishonor and protest of all instruments included in or evidencing any Obligations or Collateral, and all other notices and demands whatsoever (except as expressly provided herein).

7. Debtor hereby agrees to pay, on demand, all reasonable and documented out-of-pocket expenses incurred by Secured Party in connection with the enforcement of the Note, this Security Agreement, and the Obligations and in connection with any amendment, including, without limitation, the reasonable fees and disbursements of counsel to Secured Party.

8. In the event of any litigation with respect to any matter connected with this Security Agreement, the Obligations, the Collateral or the Note, Debtor hereby waives the right to a trial by jury and all rights of setoff. Debtor hereby waives personal service of any process in connection with any such action or proceeding and agrees that the service thereof may be made by certified or registered mail directed to Debtor in accordance with Section 13 of this Security Agreement. In the alternative, Secured Party may in their discretion effect service upon Debtor in any other form or manner permitted by law.

9. Upon the payment in full of the Note and satisfaction of all Obligations in accordance with the Note (other than any indemnification or similar obligations as to which no claim has been made), the security interest granted hereby in the Collateral shall terminate and all rights to the Collateral under this Agreement shall revert to Debtor. Upon any such termination, the Debtor shall have the right to file UCC–3 financing statement releases or other documents of release reasonably required to reflect the termination of the security interest contemplated hereby.

10. Secured Party may assign their rights and obligation hereunder to any Affiliate of Secured Party, provided that such Affiliate assumes all of the liabilities or obligations of Secured Party hereunder. For purposes of this section, "Affiliate" of any person means any other person or entity which, directly or indirectly, controls or is controlled by that person, or is under common control with that person or entity. "Control" (including, with correlative meaning, the terms "controlled by" and "under common control with"), as used with respect to any person or entity, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such person or entity, whether through the ownership of voting securities, by contract or otherwise.

11. All terms herein shall have the meanings as defined in the UCC, unless the context otherwise requires. No provision hereof shall be modified, altered, waived, released, terminated or limited except by a written instrument expressly referring to this Security Agreement and to such provision, and executed by the party to be charged. The execution and delivery of this Security Agreement has been authorized by any necessary vote or consent of Debtor. This Security Agreement and all Obligations shall be binding upon the successors and assigns of Debtor and shall, together with the rights and remedies of Secured Party hereunder, inure to the benefit of Secured Party, their executors, administrators, successors, permitted endorsees and permitted assigns.

12. This Security Agreement and the Obligations shall be governed in all respects by the laws of the State of New York applicable to contracts executed and to be performed in such state. If any term of this Security Agreement shall be held to be invalid, illegal or unenforceable, the validity of all other terms hereof shall in no way be affected thereby. Secured Party is authorized to annex hereto any schedules referred to herein. Debtor acknowledges receipt of a copy of this Security Agreement.

13. All notices and other communications under this Agreement shall be in writing and shall be deemed given when delivered personally, by e-mail, by overnight mail or delivery service or mailed by certified mail, return receipt requested, to the parties as set forth in the Note.

14. Secured Party may designate and appoint a collateral agent ("Agent"), as attorney-in-fact of Debtor, irrevocably and with power of substitution, with authority to: endorse the name of Debtor on any notes, acceptances, checks, drafts, money orders, instruments or other evidences of Collateral that may come into Secured Party's possession; sign the name of Debtor on any invoices, documents, assignments; execute proofs of claim and loss; execute endorsements, assignments or other instruments of conveyance or transfer; adjust and compromise any claims under insurance policies or otherwise; execute releases; and do all other acts and things necessary or advisable in the sole discretion of Secured Party to carry out and enforce this Agreement or the Obligations. Neither Secured Party nor any designee or agent thereof shall be liable for any acts of commission or omission done in good faith, for any error of judgment or for any mistake of fact or law. This power of attorney being coupled with an interest is irrevocable while any Obligations shall remain unpaid.

15. With respect to the enforcement of Secured Party's rights under this Agreement, Debtor hereby releases Secured Party and Agent from any claims, causes of action and demands at any time arising out of or with respect to this Agreement, the Obligations, the Collateral and its use and/or any actions taken or omitted to be taken by Secured Party or Agent in good faith with respect thereto, and Debtor hereby agrees to hold Secured Party and Agent harmless from and with respect to any and all such claims, causes of action and demands; provided that Debtor shall have no obligation to Secured Party and Agent with respect to any claims, causes of action or demands directly resulting from any fraud, gross negligence or willful misconduct of Secured Party or Agent, as determined by a court of competent jurisdiction by a final and nonappealable judgment.

[BALANCE OF PAGE INTENTIONALLY LEFT BLANK;
SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the undersigned have executed or caused this security agreement to be executed on the date first above set forth.

DEBTOR:

AYALA PHARMACEUTICALS, INC.

By: */s/ Kenneth A. Berlin*
Name: Kenneth A. Berlin
Title: President & Chief Executive Officer

[Signature Page to Security Agreement]

SECURED PARTY:

ISRAEL BIOTECH FUND I, L.P.
By its general partner: Israel Biotech Fund GP Partners, L.P.
By its general partner: I.B.F. Management, Ltd.

By: */s/ Ido Zairi*
Name: Ido Zairi
Title: Director

[Signature Page to Security Agreement]

EXHIBIT 31.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18.U.S.C. 7350
(SECTION 302 OF THE SARBANES OXLEY ACT OF 2002)

I, Kenneth A. Berlin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2023 of Ayala Pharmaceuticals, Inc.;

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

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

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

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

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

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

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

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

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

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

August 10, 2023

By: */s/ Kenneth A. Berlin*
Kenneth A. Berlin
President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18.U.S.C. 7350
(SECTION 302 OF THE SARBANES OXLEY ACT OF 2002)

I, Igor Gitelman, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2023 of Ayala Pharmaceuticals, Inc.;

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

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

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

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

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

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

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

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

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

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

August 10, 2023

By: */s/ Igor Gitelman*
Igor Gitelman
Interim Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report of Ayala Pharmaceuticals, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the fiscal quarter ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the President and Chief Executive Officer, hereby certifies pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 that, to the undersigned's knowledge:

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

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 10, 2023

By: */s/ Kenneth A. Berlin*
Kenneth A. Berlin
President and Chief Executive Officer

EXHIBIT 32.2

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

In connection with the Quarterly Report of Ayala Pharmaceuticals, Inc., a Delaware corporation (the "Company"), on Form 10-Q for the fiscal quarter ended June 30, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, the Interim Chief Financial Officer, hereby certifies pursuant to 18 U.S.C. Sec. 1350 as adopted pursuant to Section 906 of the Sarbanes Oxley Act of 2002 that, to the undersigned's knowledge:

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

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

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date: August 10, 2023

By: */s/ Igor Gitelman*
Igor Gitelman
Interim Chief Financial Officer