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 September 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 10,751,792 shares of common stock, par value $0.001 per share, outstanding as of November 11, 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, recently completed merger 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)

	September 30, 2023 (Unaudited)	December 31, 2022
CURRENT ASSETS:		
Cash and cash equivalents	$ 2,123	$ 2,408
Short-term restricted bank deposits	102	110
Trade receivables	-	234
Prepaid expenses and other current assets	2,327	436
Total current assets	4,552	3,188
LONG-TERM ASSETS:		
Deferred issuance costs	-	1,953
Operating lease right of use asset	1,276	1,462
Intangible assets, net	107	-
Property and equipment, net	845	960
Other assets	$ 201	$ 206
Total long-term assets	2,429	4,581
Total assets	**$ 6,981**	**$ 7,769**
LIABILITIES AND STOCKHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Trade payable	$ 5,056	$ 4,080
Operating lease liabilities	480	419
Accrued expenses	1,556	551
Accrued payroll and employee benefits	1,231	994
Other accounts payable	204	169
Total current liabilities	8,527	6,213
LONG TERM LIABILITIES:		
Long-term warrant liability	65	-
Convertible Note	2,068	-
Uncertain tax position	1,630	1,323
Long-term operating lease liabilities	932	1,332
Total long-term liabilities	$ 4,695	$ 2,655
STOCKHOLDERS' EQUITY (DEFICIENCY):		
Common Stock of $0.001 par value per share; 170,000,000 and 37,480,000 shares authorized on September 30, 2023 (unaudited) and on December 31, 2022, respectively; 4,838,322 and 2,775,906 shares issued and on September 30, 2023 (unaudited) and December 31, 2022, respectively; 4,788,091 and 2,695,067 shares outstanding on September 30, 2023 (unaudited) and December 31, 2022, respectively.*	$ 5	$ 3
Additional paid-in capital*	166,307	148,052
Accumulated deficit	(172,553)	(149,154)
Total stockholders' equity (deficiency)	(6,241)	(1,099)
Total liabilities and stockholders' equity (deficiency)	**$ 6,981**	**$ 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 January 2023 merger between Old Ayala, Inc. (f/k/a Ayala Pharmaceuticals, Inc.) and Ayala Pharmaceutical, Inc.(f/k/a Advaxis, Inc.). See note 1

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenues from licensing agreement and others	$ -	$ 91	$ 13	$ 587
Cost of services	-	(91)	(13)	(497)
Gross profit	—	—	—	90
Operating expenses:				
Research and development	5,683	7,199	18,671	20,282
General and administrative	1,448	2,881	8,815	7,586
Operating loss	(7,131)	(10,080)	(27,486)	(27,778)
Financial (loss) income, net	(143)	1	72	41
Loss before income tax	(7,274)	(10,079)	(27,414)	(27,737)
Taxes on income	(65)	(106)	4,015	(509)
Net loss	(7,339)	(10,185)	(23,399)	(28,246)
Net loss per share attributable to common stockholders, basic and diluted	$ (1.53)	$ (3.51)	$ (5.03)	$ (9.81)
Weighted average common shares outstanding, basic and diluted*	**4,784,474**	**2,901,478**	**4,648,599**	**2,879,465**

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 January 2023 merger between Old Ayala, Inc. (f/k/a Ayala Pharmaceuticals, Inc.) and Ayala Pharmaceutical, Inc.(f/k/a Advaxis, Inc.). See note 1

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

	Common Stock**		Additional Paid-in	Accumulated	Total Stockholders' Equity
	Number	Amount	Capital**	Deficit	(Deficiency)
Balance as of December 31, 2021	2,615,360	$ 3	$ 145,296	$ (111,141)	$ 34,158
Vested restricted shares	6,658	-	-	-	-
Share based compensation	-	-	1,914	-	1,914
Proceeds from issuance of common stock, net of issuance cost of $3	58,172	*	512	-	512
Net loss	-	-	-	(28,246)	(28,246)
Balance as of September 30, 2022	**2,680,190**	**$ 3**	**147,722**	**$ (139,387)**	**$ 8,338**
Balance as of December 31, 2022	**2,695,067**	**3**	**148,052**	**(149,154)**	**(1,099)**
Vested restricted shares	30,882	-	-	-	-
Share based compensation	-	-	1,308	-	1,308
Issuance of shares upon January 2023 Merger, net of issuance costs of $3,153	2,062,143	2	16,947	-	16,949
Net loss	-	-	-	(23,399)	(23,399)
Balance as of September 30, 2023	**4,788,092**	**$ 5**	**$ 166,307**	**$ (172,553)**	**$ (6,241)**

	Common Stock**		Additional Paid-in	Accumulated	Total Stockholders'
	Number	Amount	Capital**	Deficit	Equity
Balance as of June 30, 2022	2,620,716	$ 3	$ 146,738	$ (129,202)	$ 17,539
Vested restricted shares	2,220	-	-	-	-
Share based compensation	-	-	516	-	516
Proceeds from issuance of common stock, net of issuance cost of $3	57,254	*	468	-	468
Net loss	-	-	-	(10,185)	(10,185)
Balance as of September 30, 2022	**2,680,190**	**$ 3**	**147,722**	**$ (139,387)**	**$ 8,338**
Balance as of June 30, 2023	**4,779,826**	**5**	**166,218**	**(165,214)**	**1,009**
Vested restricted shares	8,266	-	-	-	-
Share based compensation	-	-	89	-	89
Net loss	-	-	-	(7,339)	(7,339)
Balance as of September 30, 2023	**4,788,092**	**$ 5**	**$ 166,307**	**$ (172,553)**	**$ (6,241)**

See accompanying notes to unaudited condensed consolidated financial statements.

* Represents an amount lower than $1.

** All of the Common Stock and per share data have been retroactively adjusted for the impact of the January 2023 merger between Old Ayala, Inc. (f/k/a Ayala Pharmaceuticals, Inc.) and Ayala Pharmaceutical, Inc.(f/k/a Advaxis, Inc.). See note 1

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

(In thousands)

	Nine Months Ended	
	September 30, 2023	**September 30, 2022**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (23,399)	$ (28,246)
Adjustments to reconcile net loss to net cash used in operating activities:		
Shared based compensation	1,308	1,914
Depreciation and Amortization	143	121
Asset write-downs	28	-
Remeasurement of long term warrant liability	(138)	-
Remeasurement of convertible note	68	-
Loss from exchange rate fluctuation	26	-
(Increase) decrease in prepaid expenses and other assets	(1,590)	1,106
Decrease (increase) in trade receivables	234	(129)
Increase (decrease) in trade payables	1,225	(888)
Decrease in operating lease right-of-use assets	255	220
Decrease in operating lease liabilities	(409)	(568)
Increase (decrease) in accrued expenses	(573)	330
Increase (decrease) in accrued payroll and employee benefits	197	(618)
Changes in uncertain tax position	307	542
Increase (decrease)in other accounts payable	35	(126)
Net cash used in operating activities	**(22,283)**	**(26,342)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of shares, net of issuance cost of $3	$ -	$ 512
Proceeds from issuance of convertible note	2,000	-
Issuance of shares upon Merger, net of issuance costs	20,001	-
Net cash provided by financing activities	$ 22,001	$ 512
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(26)	
Decrease in cash and cash equivalents and restricted cash	(308)	(25,830)
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	$ 2,416	11,509
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	$ 286	$ 182

Reconciliation of cash, cash equivalents and restricted cash

	September 30, 2023	**September 30, 2022**
Cash and cash equivalents	$ 2,123	$ 11,195
Restricted bank deposits	102	110
Restricted bank deposits in other assets	191	204
Cash and cash equivalents and restricted cash at end of the period	$ 2,416	$ 11,509

See accompanying notes to unaudited condensed consolidated financial statements

NOTE 1—GENERAL

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 January 2023 Merger, as described below. References to "former Advaxis" refer to our company solely in the period prior to the January 2023 Merger.

Prior to the January 2023 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 January 2023 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.

Going Concern

The Company has incurred recurring losses since inception as a research and development organization and has an accumulated deficit of $172.6 million as of September 30, 2023. For the nine months ended September 30, 2023, the Company used approximately $22.3 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 September 30, 2023, the Company had approximately $2.1 million in cash and cash equivalents, and had approximately $1.6 million, as of the date of filing of this Form 10-Q, following the completion of the financing transactions on November 17, 2023 (the "November 17 Financing"), as described below The Company has limited available cash resources and believes that its current resources will not, without additional funding, be sufficient to meet its current obligations on the date of issuance of these condensed consolidated financial statements, which are estimated at approximately $12 million, and $2 million Convertible note received on August 7, 2023. Also, The Company had deferred payments to its suppliers and its certain former officers starting approximately six months ago. The Company is in the process of obtaining deferrals for its current obligations.

Management has evaluated different strategies to obtain the required funding for future operations, including through public or private debt and equity financings, but despite its efforts, the Company has been unsuccessful, other than the November 17 Financing, in securing additional capital to fund operations and otherwise satisfy creditor obligations. Obtaining additional funding is essential to provide sufficient cash flow to meet current operating requirements. There can be no assurances that such financing will become available to the Company on satisfactory terms, or at all.

In addition to seeking to obtain additional financing, management and the Board are evaluating strategic alternatives that may be available. Should financing not be obtained, or another strategic alternative not consummated, management and the Board may consider other alternatives, including without limitation bankruptcy and liquidation of the Company or an assignment for the benefit of creditors.

NOTE 1—GENERAL (continued):

During the three months ended September 30, 2023, the Company had a reduction in workforce in which the employment of approximately 30% of the Company's employees was terminated. This reduction in workforce has not yet required the Company to cease any major development efforts. Following the reduction in workforce, the Company had 21 employees. The Company expects to be able to meet its financial obligations to its employees and to its creditors only if able to reach agreements on payment terms and secure additional funding. The Company is evaluating additional reductions in costs, including additional reductions in workforce expenses and is also actively working on securing additional funding to help meet current obligations.

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 nine months ended September 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.

On November 17, 2023, the Company issued Senior Convertible Promissory Notes (collectively, the "Senior Convertible Notes"), in an aggregate amount of $4.0 million, to several existing lenders and investors in the Company, including Israel Biotech Fund I, L.P., Israel Biotech Fund II, L.P., Arkin Bio Ventures L.P. and Biotel Limited. The amounts borrowed by the Company under the Senior Convertible Notes are expected to be funded to the Company on or about November 20, 2023. The Senior Convertible Notes are convertible into shares of the Company's common stock, par value $0.001 per share (the "Common Stock") at any time at the option of the noteholders, and are subject to mandatory conversion upon certain events. See note 7 for more details.

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. (which shortly prior to the closing of the merger in January 2023 changed 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 "January 2023 Merger"). Immediately after the January 2023 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 January 2023 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 January 2023 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 January 2023 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 January 2023 Merger.

Because most of the value of the assets of former Advaxis was in cash and cash equivalents, the January 2023 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 January 2023 Merger. Old Ayala's transaction costs were capitalized and offset against the shareholder's equity upon the January 2023 Merger, and former Advaxis' transaction costs were expensed as merger costs. The consolidated financial statements from the closing date of the January 2023 Merger include the assets, liabilities, and results of operations of the combined company.

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 January 2023 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.

NOTE 1—GENERAL (continued):

The following unaudited table provides certain pro forma financial information for the Company as if the January 2023 Merger occurred on January 1, 2022 (in thousands except per share amounts):

	Nine months ended September 30, 2023	Nine months ended September 30, 2022 *
	Unaudited	Unaudited
Revenue	$ 13	$ 837
Net loss	$ (23,583)	$ (40,308)

	Three months Ended September 30, 2023	Three months ended September 30, 2022*
	Unaudited	Unaudited
Revenue	$ -	$ 91
Net loss	$ (7,992)	$ (17,061)

* The pro forma amounts above are derived from historical numbers of the Company and Old Ayala. The results of operations for the three and nine months ended September 30, 2022 include the operations of the Company for the period from May 1, 2022 to July 31, 2022 and November 1, 2021 to July 31, 2022, respectively which was the first nine 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.

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—GENERAL (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.

The table below sets forth the number of potential shares of common stock that have been excluded from diluted net loss per share

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Net loss attributable to common stockholders, basic and diluted	(7,339)	(10,185)	(23,399)	(28,246
Weighted average common shares outstanding, basic and diluted*	**4,784,474**	**2,901,478**	**4,648,599**	**2,879,465**
Warrants	465,271	109,316	465,271	109,316
Stock options	110,860	213,997	110,860	213,997
Anti dilutive shares outstanding which were not included in the diluted calculation	576,131	323,313	576,131	323,313
Net loss per share attributable to common stockholders, basic and diluted	$ (1.53)	$ (3.51)	$ (5.03)	$ (9.81)

See note 5 for condition of warrants.

All of the Common Stock, exercise prices and per share data have been retroactively adjusted for the impact of the January 2023 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 and convertible note 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 thousand in the nine months ended September 30, 2023 while there was no revenue recognized in the three months ended September 30, 2023.

Revenue associated with the research and development services in the amount of approximately $587 and $91 thousands was recognized in the nine and three months ended September 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 September 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 September 30, 2023 and December 31, 2022, the Company accrued interest related to uncertain tax positions of $103 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:

	Nine months Ended September 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)	35	36
Subtractions for tax positions of previous period	(7)	
Additions for tax positions of current period	279	429
Uncertain tax position at the end of the period	$ 1,630	$ 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 September 30, 2023.

In March 2023, the Company received $4.7 million 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 September 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 September 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 January 2023 Merger, see note 1

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

As of September 30, 2023, the Company had 289,327 of its total 465,271 outstanding warrants classified as equity. As of December 31, 2022, all outstanding warrants were classified as equity. At issuance, equity warrants are recorded in additional paid-In capital.

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 January 2023 Merger	377,818*	53.45*		
Exercised	(249,867)*	0.05*		
Outstanding warrants at September 30, 2023	465,271*	$ 61.56*	3.15	$ -
Exercisable warrants at September 30, 2023	290,206	$ 64.92	2.29	$ -

* Exercise price and warrant numbers have been retroactively adjusted for the impact of the January 2023 Merger, see note 1.

Shares Issued for Warrants Exercises

During the nine months ended September 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 September 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 September 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 September 30, 2023, the Company used the following inputs in its Black Scholes model:

	September 30, 2023	January 19, 2023
Exercise Price	$ 55.73	$ 55.73
Stock Price	$ 0.94	$ 2.95
Expected Term	4.98 years	4.98 years
Volatility %	128%	117%
Risk Free Rate	4.60%	3.60%

For the nine months ended September 30, 2023, the Company reported a gain of approximately $138 due to changes in the fair value of the warrant liability

Convertible Note

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.

On September 1, 2023 the company received the $2.0 million dollars, and since then no further payments have been made or withdrawn.

The Company has elected the fair value option to measure the Note upon issuance, in accordance with ASC 825-10. Under the fair value option, the Note is measured at fair value each period with changes in fair value reported in the consolidated statements of operations. According to ASC 825-10, changes in

fair value that are caused by changes in the instrument-specific credit risk will be presented separately in other comprehensive income (loss).

The Note was valued using a probability-weighted expected return model, which incorporated significant unobservable inputs such as the likelihood of a voluntary Note conversion (30% likelihood), the Note being held to maturity (30% likelihood) and the Note mandatory conversion in a PIPE (40% likelihood). This resulted in an implied borrowing rate of 37.8% was used as an input to the fair value measurement. None of the change in fair value was deemed to be attributable to instrument-specific credit risk and thus the full amount of such change was recognized in the statements of operations.

In measuring the note for issued the Company used the following inputs:

	September 30, 2023	August 7, 2023
Stock price	$ 0.94	$ 1.15
Interest rate	7.4	7.3%
Implied discount	48.8%	40.6%
Volatility %	80.2%	74.5%
Risk Free Rate	4.60%	4.20%

For the nine months ended September 30, 2023, the Company reported change in fair value of not of approximately $68 as part of financial loss in the consolidated statement of operations.

NOTE 5—FAIR VALUE MEASUREMENTS

As of September 30, 2022 the Company did not have any assets or liabilities carried at fair value on a recurring basis. The following table provide the liabilities carried at fair value measured on a recurring basis as of September 30, 2023:

Fair Value Measured at September 30, 2023

	Level 1	Level 2	Level 3	Total
Financial liabilities at fair value:				
Convertible note	$ -	$	$ 2,068	$ 2,068
Long term warrant liability	$ -	$ -	$ 65	$ 65
Total financial liabilities at fair value	**$ -**	**$ -**	**$ 2,133**	**$ 2,133**

The changes in the fair value of the Company's Level 3 financial liabilities, which are measured on a recurring basis are as follows (in thousands):

	For the 9 months ended September 30, 2023	For the 3 months ended September 30, 2023
Beginning balance	-	67
Long term warrant assumed from Merger	203	-
Proceed from issuance of loan	$ 2,000	2,000
Revaluation recorded in financial income, net	(70)	66
Ending balance	2,133	2,133

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 $191 thousand 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:

	September 30, 2023	
	ROU assets	**Lease liabilities**
Offices	$ 1,179	$ 1,350
Cars	97	62
Total operating leases	**$ 1,276**	**$ 1,412**

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

	September 30, 2023 Lease liabilities	**December 31, 2022 Lease liabilities**
Current lease liabilities	$ 480	$ 419
Non-current lease liabilities	932	1,332
Total lease liabilities	**$ 1,412**	**$ 1,751**

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

	For nine months ended September 30,	**For nine months ended September 30,**

	2023	2022
Operating lease cost	$ 348	$ 341
Variable lease cost	6	10
Total lease cost	$ 354	$ 351

	For three months ended September 30, 2023	For three months ended September 30, 2022
Operating lease cost	$ 79	$ 120
Variable lease cost	-	-
Total lease cost	**$ 79**	$ 120

As of September 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:

	September 30, 2023
2023 (from October 1)	$ 146
2024	380
2025	318
2026	308
2027	308
After 2027	411
Total undiscounted lease payments	$ 1,871
Less: Interest	459
Total lease liabilities – operating	**$ 1,412**

Purported Stockholder Claims

Purported Stockholder Claims Related to January 2023 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”).

NOTE 6—COMMITMENTS AND CONTINGENT LIABILITIES (continued):

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 January 2023 Merger. The Complaint seeks, among other relief, (1) to enjoin defendants from consummating the January 2023 Merger; (2) to enjoin a vote on the January 2023 Merger; (3) to rescind the January 2023 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

Merger with Biosight

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 on October 18, 2023, Merger Sub merged (the "Biosight Merger") with and into Biosight, which is now a wholly owned subsidiary of the Company. At completion of the Biosight Merger, Ayala's then-current equity holders own approximately 45% and the former Biosight equity holders own approximately 55% of Ayala's common stock.

Based on the agreement, Ayala Pharmaceuticals, Inc. is the legal acquirer in the Merger. In addition, the Company considered ASC 805-10-55 to determine the accounting acquirer in the Merger. As the Company holds a majority of the members of the governing body of the combined Company, the Company's former management dominates the majority of the senior management of the combined Company and after considering all other factors according to ASC 805-10-55, the Company was identified as the accounting acquirer in the Merger. The Company has accounted for the Merger as a business combination according to ASC 805 "Business Combinations".

Senior Convertible Notes

On November 17, 2023, the Company issued Senior Convertible Promissory Notes (collectively, the "Senior Convertible Notes"), in an aggregate amount of $4.0 million, to several existing lenders and investors in the Company, including Israel Biotech Fund I, L.P., Israel Biotech Fund II, L.P., Arkin Bio Ventures L.P. and Biotel Limited. The amounts borrowed by the Company under the Senior Convertible Notes are expected to be funded to the Company on or about November 20, 2023. The Senior Convertible Notes are convertible into shares of the Company's common stock, par value $0.001 per share (the "Common Stock") at any time at the option of the noteholders, and are subject to mandatory conversion upon certain events. including a change of control transaction and certain financing transactions involving the Company, at a conversion price equal to the lower of (i) 50% of the Common Stock's price per share as of market close on November 16, 2023 and (ii) 50% of 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 certain adjustments. In connection with the issuance of the Senior Convertible Notes, the Company has issued to the noteholders warrants to purchase an aggregate of 15,000,000 shares of the Common Stock with an exercise price equal to the lower of (A) 50% of the Common Stock's price per share as of market close on November 16, 2023 and (ii) 50% of 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 Exercise of the warrant, subject to adjustment, which exercise may be on a cashless basis. The noteholders also have the right, pursuant to a Side Letter Agreement between the noteholders and the Company, to lend an additional $4.0 million dollars to the Company on the same terms. The Company and Israel Biotech Fund I, L.P. and Israel Biotech Fund II, L.P. also agreed to amend and restate the terms of the Senior Secured Convertible Promissory Notes issued by the Company on August 7, 2023 to conform to the terms of the Senior Convertible Notes, and issued to the holders of such notes warrants to purchase an aggregate of 7,500,000 shares of the Common Stock on the terms of the above-described warrants.

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 Developments

Merger with Biosight

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 on October 18, 2023, Merger Sub merged (the "Biosight Merger") with and into Biosight, which is now a wholly owned subsidiary of the Company. At completion of the Biosight Merger, Ayala's then-current equity holders own approximately 45% and the former Biosight equity holders own approximately 55% of Ayala's common stock.

Cost-reduction Plan Implementation and Reduction in Workforce

During the three months ended September 30, 2023, the Company had a reduction in workforce in which the employment of approximately 30% of the Company's employees was terminated. This reduction in workforce has not yet required the Company to cease any major development efforts. Following the reduction in workforce, the Company had approximately 21 employees. The Company expects to be able to meet its financial obligations to its employees and to its creditors only if able to reach agreements on payment terms and secure additional funding. The Company is evaluating additional reductions in costs, including additional reductions in workforce expenses and is also actively working on securing additional funding to help meet current obligations.

Management and the Board are evaluating strategic alternatives that may be available. Should financing not be obtained, or another strategic alternative not consummated, management and the Board may consider other alternatives, including without limitation bankruptcy and liquidation of the Company or an assignment for the benefit of creditors.

As of September 30, 2023, the Company had approximately $2.1 million in cash and cash equivalents, and had approximately $1.6 million, as of the date of filing of this Form 10-Q, following the completion of the financing transactions on November 17, 2023 (the "November 17 Financing"), as described below. The Company has limited available cash resources and believes that its current resources will not, without additional funding, be sufficient to meet its current obligations on the date of issuance of these condensed consolidated financial statements, which are estimated at approximately $12 million, and $2 million Convertible note received on August 7, 2023. Also, The Company had deferred payments to its suppliers and its certain former officers starting approximately six months ago. The Company is in the process of obtaining deferrals for its current obligations.

Management has evaluated different strategies to obtain the required funding for future operations, including through public or private debt and equity financings, but despite its efforts, the Company has been unsuccessful, other than the November 17 Financing, in securing additional capital to fund operations and otherwise satisfy creditor obligations. Obtaining additional funding is essential to provide sufficient cash flow to meet current operating requirements. There can be no assurances that such financing will become available to the Company on satisfactory terms, or at all.

January 2023 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 "January 2023 Merger"). Immediately after the January 2023 Merger, our stockholders as of immediately prior to the January 2023 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 January 2023 Merger was accounted for a reverse acquisition pursuant to ASC 805-40.

At the effective time of the January 2023 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 January 2023 Merger and the Biosight 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.

We also continue to conduct certain operations relating to Biosight's operations which are focused on the development of Aspacytarabine ("BST-236") – a novel proprietary anti-metabolite, prodrug of cytarabine, cytarabine covalently bound to asparagine. BST-236 enables delivery of high cytarabine doses to leukemia patients with lower systemic exposure to the free drug. BST-236 demonstrated monotherapy activity in Phase 2 studies. It is currently tested in a combination study, Ph1, together with Venetoclax, a BCL2 inhibitor. We believe this combination in unfit Acute myeloid Leukemia ("AML") patients has the potential to improve response rates and survival.

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 was presented at a medical conference.

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 second half of 2024. 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 was 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 January 2023 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 $23.4 million and $28.2 million for the nine months ended September 30, 2023 and 2022, respectively. As of September 30, 2023, we had an accumulated deficit of $172.6 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 September 30, 2023, we had cash and cash equivalents of approximately $2.1 million. Due to the uncertainty in securing additional funding, and the insufficient amount of cash and cash equivalent resources on September 30, 2023, we have concluded that substantial doubt exists with respect to our ability to continue as a going concern within 1 month 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. 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 nine months ended September 30, 2023 and 2022

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2023	**2022**	**2023**	**2022**
Revenues from licensing agreement and others	$ -	$ 91	$ 13	$ 587
Cost of services	-	(91)	(13)	(497)
Gross profit	—	—	—	90
Operating expenses:				
Research and development	5,683	7,199	18,671	20,282
General and administrative	1,448	2,881	8,815	7,586
Operating loss	(7,131)	(10,080)	(27,486)	(27,778)
Financial (loss) income, net	(143)	1	72	41
Loss before income tax	(7,274)	(10,079)	(27,414)	(27,737)
Taxes on income	(65)	(106)	4,015	(509)
Net loss	(7,339)	(10,185)	(23,399)	(28,246)
Net loss per share attributable to common stockholders, basic and diluted	$ (1.53)	$ (3.51)	$ (5.03)	$ (9.81)
Weighted average common shares outstanding, basic and	**4,784,474**	**2,901,478**	**4,648,599**	**2,879,465**

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 nine months ended September 30, 2023 and 2022, we recognized approximately $13 thousand in revenue and $587 thousand in revenue, respectively, mainly as a result of the Novartis Agreement. For the three months ended September 30, 2023 did not recognize any revenue while for the three months ended September 30, 2022, we recognized approximately $91 thousand in revenue 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.

	Nine Months Ended September 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
Research and development	$ 18,671	$ 20,282	$ (1,611)	(7.94)%

	Three Months Ended September 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
Research and development	$ 5,683	$ 7,199	$ (1,516)	(21)%

Research and development expenses were $18.7 million for the nine months ended September 30, 2023 compared to $20.3 million for the nine months ended September 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 September 30, 2023 compared to $7.2 million for the three months ended September 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.

The following table summarizes our research and development expenses by product candidate or development program for the three and nine months ended

September 30, 2023 and 2022:

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Program-Specific Costs:				
AL 101				
ACC	292	940	1,545	2,703
TNBC [1]	793	926	1,680	3,460
General expenses	285	728	1,378	1,904
AL 102				
General expenses	218	74	1,700	254
Desmoid	3,320	4,531	7,957	11,961
Other R&D expenses (Mainly Lm)	775	-	4,411	-
Total research and development expenses	$ 5,683	$ 7,199	$ 18,671	$ 20,282

(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	Nine Months Ended September 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
General and Administrative	$ 8,815	$ 7,586	$ 1,229	16%

General and Administrative Expenses	Three Months Ended September 30,			
	2023	2022	$ Change	% Change
	($ in thousands)			
General and Administrative	$ 1,448	$ 2,881	$ (1,433)	(50)%

General and administrative expenses were $8.8 million for the nine months ended September 30, 2023 compared to $7.6 million for the nine months ended September 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 $1.1 million in stock-based compensation due to acceleration of options as part of severance agreement.

General and administrative expenses were $1.5 million for the three months ended September 30, 2023, compared to $2.9 million for the three months ended September 30, 2022. The decrease was mainly due to reduction in personnel costs.

Financial Loss, net

Financial income, net was $72 thousand for the nine months ended September 30, 2023 compared to financial gain of $41 thousand for the nine months ended September 30, 2022. The main change is due to the revaluation of the convertible note during Q3 2023.

Financial loss, net was $143 thousand for the three months ended September 30, 2023 compared to $1 thousand for the three months ended September 30, 2022. The main change is due to the revaluation of the convertible note.

Taxes on income

Taxes on Income expenses were $65 thousand for the three months ended September 30, 2023, compared to $106 thousand for the three months ended September 30, 2022. The decrease was mainly due to reduction in stock-based compensation and payroll costs in Israel due to a reduction in personnel costs, as we pay tax based on our expenses in Israel.

Taxes on Income credit net was $4,015 thousand for the nine months ended September 30, 2023, compared to $509 thousand expenses for the nine months ended September 30, 2022. The credit amount was mostly due to receiving of $4.7 million 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.

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 $23.4 million for the nine months ended September 30, 2023. As September 30, 2023, we had an accumulated deficit of $172.6 million. The company is actively seeking investments to fund the operations.

Funding Requirements

As of September 30, 2023, we had cash and cash equivalents of approximately $2.1 million, and had approximately $1.6 million as of the date of filing of this Form 10-Q, following the completion of certain financing transactions on November 17, 2023 (the "November 17 Financing"), as described in Part II, Item 5 of this Form 10-Q.

We believe based on our current operating plan, our existing cash and cash equivalents on hand as of the date of filing of this Form 10-Q will enable us to fund our operations assuming we can manage the timing of payment of our current obligations and are able to secure additional funding while maintaining a level of general and administrative expenses to support the business and continue focus on development of AL102. The Company expects to be able to meet its financial obligations to its employees and to its vendors only if able to reach agreements on payment terms and secure additional funding. The Company is evaluating additional reductions in costs including additional reductions in workforce expenses, to help meet current obligations.

Management has evaluated different strategies to obtain the required funding for future operations. Despite its efforts, the Company has been unsuccessful in securing additional capital to fund operations and otherwise satisfy creditor obligations. As a result, management and the Board are evaluating strategic alternatives that may be available. Should financing not be obtained, or another strategic alternative consummated, management and the Board may consider other alternatives, including without limitation bankruptcy and liquidation of the Company or an assignment for the benefit of creditors.

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 nine months ended September 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 "January 2023 Merger"). Immediately after the January 2023 Merger, former Advaxis stockholders as of immediately prior to the January 2023 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 January 2023 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.

Cash Flows

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

	Nine Months Ended September 30,	
	2023	**2022**
	($ in thousands)	
Cash flows (used in) provided by:		
Operating activities	(22,283)	(26,342)
Financing activities	22,001	512
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(26)	-
Increase (decrease) in cash and cash equivalents and restricted cash	(308)	(25,830)

Operating Activities

Net cash used in operating activities during the nine months ended September 30, 2023 of approximately $22.3 million was primarily attributable to our net loss of $23.4 million, adjusted for non-cash expenses of $1.4 million, which includes stock-based compensation of $1.3 million, and a net increase in working capital of $0.3 million.

Net cash used in operating activities during the nine months ended September 30, 2022 of approximately $26.3 million was primarily attributable to our net loss of $28.2 million, adjusted for non-cash expenses of $2.0 million, which includes stock-based compensation of $1.9 million, and a net increase in working capital of $0.1 million.

Investing Activities

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

Financing Activities

Net cash provided by financing activities during the nine months ended September 30, 2023 of $22.0 million is attributable to the January 2023 Merger.

Net cash provided by financing activities during the nine months ended September 30, 2022 of $512 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 September 30, 2023, we had cash and cash equivalents of $2.1 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 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 September 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 January 2023 Merger and the Biosight Merger.;
- 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 cost of conducting and completing clinical trials of BST-236;
- 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.

Material Weaknesses

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that a reasonable possibility exists that a material misstatement of our annual or interim financial statements could not be prevented or detected on a timely basis. We have identified material weaknesses in our controls related to the aggregation of open control deficiencies across the Company's financial reporting processes because the controls were not fully designed and operating effectively.

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 September 30, 2023, our disclosure controls and procedures were not effective due to the material weakness in our internal control over financial reporting.

Changes in Internal control over Financial Reporting

During the fiscal quarter ended September 30, 2023, there has been no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

However, management has identified a material weakness in internal controls related to the aggregation of open control deficiencies across the Company's financial reporting processes.

Remediation Plan for the Material Weakness

Management is committed to the remediation of the material weakness described above, as well as the continued improvement of the Company's internal control over financial reporting. Management has implemented and continues to implement measures designed to ensure that control deficiencies contributing to the material weakness are remediated, such that these controls are designed, implemented and operating effectively.

Management is re-assessing the design of manual controls and modifying processes designed to improve our internal control over financial reporting and remediate the control deficiencies that led to the material weaknesses, including but not limited to, (a) frequent communications between our Audit Committee and management regarding our financial reporting and internal control environment and (b) planned upgrading of the finance, accounting and reporting functions through the addition of experienced and qualified resources.

We will continue to evaluate and improve the internal controls over financial reporting and take additional measures to address control deficiencies. Management will test and evaluate the implementation of internal controls and revised processes to ascertain whether they are designed and operating effectively to provide reasonable assurance that they will prevent or detect a material error in our financial statements.

We believe that once these actions have been completed, it will remediate the material weakness. The material weakness will not be considered remediated, however, until the applicable controls operate for a sufficient period of time and management has concluded that controls are operating effectively. The elements of our remediation plan can only be accomplished over time. We can offer no assurance that the elements of our remediation plan initiatives will ultimately have the intended effects.

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, except for the following:

Situation in Israel

In October 2023, Hamas terrorists infiltrated Israel's southern border from the Gaza Strip and conducted a series of attacks on civilian and military targets. Hamas also launched extensive rocket attacks on the Israeli population and industrial centers located along Israel's border with the Gaza Strip and in other areas within the State of Israel. These attacks resulted in thousands of deaths and injuries, and Hamas additionally kidnapped many Israeli civilians and soldiers. Following the attack, Israel's security cabinet declared war against Hamas and commenced a military campaign against Hamas. The Company cannot currently predict the intensity or duration of Israel's war against Hamas, nor can predict how this war will ultimately affect the Company's business and operations or Israel's economy in general.

Despite recent cost-saving measures, our cash and cash equivalents are not sufficient to fund, assuming we can manage the time of payment of our current obligations and are able to secure additional funding and our Board currently is evaluating several options, including bankruptcy and liquidation of the Company and an assignment for the benefit of creditors.

As of September 30, 2023, we had cash and cash equivalents of approximately $2.1 million, and had approximately $1.6 million as of the date of filing of this Form 10-Q, following the completion of certain financing transactions on November 17, 2023 (the "November 17 Financing"), as described in Part II, Item 5 of this Form 10-Q. We believe based on our current operating plan, our existing cash and cash equivalents on hand as of the filing date of this Form 10-Q will enable us to fund our operations, assuming we can manage the time of payment of our current obligations and are able to secure additional funding. As of the filing date of this Form 10-Q, the Board is evaluating several options, including additional financing as well as strategic alternatives that may be available. Should financing not be obtained, or another strategic alternative consummated, management and the Board may consider other alternatives, including without limitation bankruptcy and liquidation of the Company or an assignment for the benefit of creditors.

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.

None of our directors or officers adopted, modified or terminated a Rule 10b5-1 trading arrangement or a non-Rule 10b5-1 trading arrangement during our fiscal quarter ended September 30, 2023.

Information Regarding November 17, 2023 Financing Transactions

On November 17, 2023, the Company issued Senior Convertible Promissory Notes (collectively, the "Senior Convertible Notes"), in an aggregate amount of $4.0 million, to several existing lenders and investors in the Company, including Israel Biotech Fund I, L.P., Israel Biotech Fund II, L.P., Arkin Bio Ventures L.P. and Biotel Limited. The amounts borrowed by the Company under the Senior Convertible Notes are expected to be funded to the Company on or about November 20, 2023. The Senior Convertible Notes are convertible into shares of the Company's common stock, par value $0.001 per share (the "Common Stock") at any time at the option of the noteholders, and are subject to mandatory conversion upon certain events, including a change of control transaction and certain financing transactions involving the Company, at a conversion price equal to the lower of (i) 50% of the Common Stock's price per share as of market close on November 16, 2023 and (ii) 50% of 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 certain adjustments. In connection with the issuance of the Senior Convertible Notes, the Company has issued to the noteholders warrants to purchase an aggregate of 15,000,000 shares of the Common Stock with an exercise price equal to the lower of (A) 50% of the Common Stock's price per share as of market close on November 16, 2023 and (ii) 50% of 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 Exercise of the warrant, subject to adjustment, which exercise may be on a cashless basis.

The noteholders also have the right, pursuant to a Side Letter Agreement (New Notes) between the noteholders and the Company, to lend an additional $4.0 million dollars to the Company on the same terms, including warrant coverage. This right is exercisable until the earliest of (i) May 17, 2024, (ii) the date of consummation of a Change of Control Transaction, and (iii) the date of consummation of a Financing Transaction (both as defined in the New Side Letter Agreement.

The Company and Israel Biotech Fund I, L.P. and Israel Biotech Fund II, L.P. also agreed to amend and restate the terms of the Senior Secured Convertible Promissory Notes issued by the Company on August 7, 2023, as previously disclosed by the Company in its Quarterly Report on Form 10-Q for the quarter ended June 30, 2023 (the "Existing Secured Notes"), to conform to the terms of the Senior Convertible Notes, and issued to the holders of the Existing Secured Notes warrants to purchase an aggregate of 7,500,000 shares of the Common Stock on the terms of the above-described warrants.

Those members of the Company's Board of Directors who are associated with Israel Biotech Fund I, L.P., Israel Biotech Fund II, L.P. and Arkin Bio Ventures L.P. did not participate in any of the deliberations or decisions with respect to the transactions described in this paragraph, all of which were reviewed and approved by the disinterested members of the Board.

In connection with the issuance of the Senior Convertible Notes, the Company also entered into a new Side Letter Agreement for Conversion dated November 17, 2023 (the "New Side Letter Agreement") with the Investors. Pursuant to the New Side Letter Agreement, the Company and the Investors agreed that until the earliest of (i) November 17, 2028, (ii) the date of consummation of a Change of Control Transaction, and (iii) the date of consummation of a Financing Transaction (both as defined in the New Side Letter Agreement, the Investors shall have the right (but not the obligation) to purchase senior convertible promissory notes of the Company on the same terms (including with respect to warrant coverage) of the Senior Convertible Notes, up to an aggregate amount of $1,458,000.

In addition, the Company and the lenders under the Senior Convertible Notes and the Existing Secured Notes entered into a Subordination Agreement dated as of November 17, 2023 (the "Subordination Agreement"), and the Company and the parties to the Senior Convertible Notes entered into a Registration Rights Agreement dated as of November 17, 2023 (the "Registration Rights Agreement") providing to the holders of the notes and the warrants customary rights with respect to the registration of the shares of Common Stock issuable upon conversion of the notes or exercise of the warrants under the Securities Act of 1933, as amended.

The Senior Convertible Notes, the amended and restated Existing Secured Notes. the warrants issued in connection therewith, and the shares of Common Stock issuable pursuant to the exercise of such warrants, 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.

Following the issuance of the Senior Convertible Notes, the amendment and restatement of the Existing Secured Notes, the issuance of the warrants described in this Item 5 and the entry into of the New Side Letter Agreement, Israel Biotech Fund I, L.P. and Israel Biotech Fund II, L.P. own approximately _59% of the Common Stock on a fully converted basis. Israel Biotech Fund I, L.P. and Israel Biotech Fund II, L.P. invested $2.4 million in the Senior Convertible Notes and $2.0 million in the Existing Secured Notes, from their funds held for investment.

The foregoing summaries of the Senior Convertible Notes, the amended and restated Existing Secured Notes, the warrants issued in connection with the Senior Convertible Notes, the warrants issued in connection with the amended and restated Existing Secured Notes, the New Side Letter Agreement, the Subordination Agreement and the Registration Rights Agreement do not purport to be complete and are qualified in their entireties by reference to the full copies of such agreements and instruments, which are attached as exhibits 10.1, 10.2, 10.3, 10.4, 10.5, 10.6 and 10.7, respectively, to this Form 10-Q and incorporated into this Item 5 by reference.

Item 6. Exhibits.

The following exhibits are filed as part of, or incorporated by reference into, this Quarterly Report on Form 10-Q (unless otherwise indicated, the file number with respect to each filed document is 001-36138):

Exhibit Number	Description	Form	Exhibit	Filing Date	Filed/ Furnished Herewith
2.1	Agreement and Plan of Merger and Reorganization, 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 ("Merger Sub"), and Biosight. Ltd., dated as of July 26, 2023.	8-K	2.1	August 1, 2023	
10.1(1)	Amended and Restated Senior Secured Convertible Promissory Note, dated November 17, 2023, by and between Ayala Pharmaceuticals, Inc. and Israel Biotech Fund I, L.P.				*
10.2(2)	Senior Convertible Promissory Note, dated November 17, 2023, by and between Ayala Pharmaceuticals, Inc. and Israel Biotech Fund I, L.P.				*
10.3(3)	Common Stock Purchase Warrant (Convertible Note), dated November 17, 2023, issued by Ayala Pharmaceuticals, Inc. to Israel Biotech Fund I, L.P.				*
10.4(4)	Common Stock Purchase Warrant (Secured Note), dated November 17, 2023, issued by Ayala Pharmaceuticals, Inc. to Israel Biotech Fund I, L.P.				*
10.5	Side Letter Agreement (New Notes), dated November 17, 2023, by and among Ayala Pharmaceuticals, Inc., Israel Biotech Fund I, L.P., Israel Biotech Fund II, L.P., Arkin Bio Ventures L.P., Biotel Limited and Arkin Communication Ltd.				*
10.6	Subordination Agreement, dated November 17, 2023, by and among Ayala Pharmaceuticals, Inc., Israel Biotech Fund I, L.P. and Israel Biotech Fund II, L.P., Arkin Bio Ventures L.P. and Biotel Limited				*
10.7	Registration Rights Agreement, dated November 17, 2023, by and among Ayala Pharmaceuticals, Inc., Israel Biotech Fund I, L.P., Israel Biotech Fund II, L.P., Arkin Bio Ventures L.P., Biotel Limited and Arkin Communication Ltd.				*
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)

(1) Pursuant to Instruction 2 to Item 601 of Regulation S-K, the Company has filed a copy of one Amended and Restated Senior Secured Convertible Promissory Note, and has set forth as follows the other document omitted. The Company acknowledges that the Commission may at any time in its discretion require filing of copies of any documents so omitted.

1. Amended and Restated Senior Secured Convertible Promissory Note, dated November 17, 2023, by and between Ayala Pharmaceuticals, Inc. and Israel Biotech Fund II, L.P.

(2) Pursuant to Instruction 2 to Item 601 of Regulation S-K, the Company has filed a copy of one Senior Convertible Promissory Note, and has set forth as follows the other documents omitted. The Company acknowledges that the Commission may at any time in its discretion require filing of copies of any documents so omitted.

1. Senior Convertible Promissory Note, dated November 17, 2023, by and between Ayala Pharmaceuticals, Inc. and Israel Biotech Fund II, L.P.

2. Senior Convertible Promissory Note, dated November 17, 2023, by and between Ayala Pharmaceuticals, Inc. and Arkin Bio Ventures L.P.

3. Senior Convertible Promissory Note, dated November 17, 2023, by and between Ayala Pharmaceuticals, Inc. and Biotel Limited.

(3) Pursuant to Instruction 2 to Item 601 of Regulation S-K, the Company has filed a copy of one Common Stock Purchase Warrant (Convertible Note), and has set forth as follows the other documents omitted. The Company acknowledges that the Commission may at any time in its discretion require filing of copies of any documents so omitted.

1. Common Stock Purchase Warrant (Convertible Note), dated November 17, 2023, issued by Ayala Pharmaceuticals, Inc. to Israel Biotech Fund II, L.P.

2. Common Stock Purchase Warrant (Convertible Note), dated November 17, 2023, issued by Ayala Pharmaceuticals, Inc. to Arkin Bio Ventures L.P.

3. Common Stock Purchase Warrant (Convertible Note), dated November 17, 2023, issued by Ayala Pharmaceuticals, Inc. to Biotel Limited.

(4) Pursuant to Instruction 2 to Item 601 of Regulation S-K, the Company has filed a copy of one Common Stock Purchase Warrant (Secured Note), and has set forth as follows the other document omitted. The Company acknowledges that the Commission may at any time in its discretion require filing of copies of any documents so omitted.

1. Common Stock Purchase Warrant (Secured Note), dated November 17, 2023, issued by Ayala Pharmaceuticals, Inc. to Israel Biotech Fund II, L.P.

* 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: November 20, 2023

By: */s/ Kenneth Berlin*

Kenneth Berlin
President and Chief Executive Officer
(principal executive officer)

Date: November 20, 2023

By: */s/ Roy Golan*

Roy Golan
Chief Financial Officer
(principal financial and accounting officer)

Exhibit 10.1

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: $1,500,000

Amended and Restated Date ("AR Date"): November 17, 2023

SENIOR SECURED CONVERTIBLE PROMISSORY NOTE
DUE August 7, 2028

THIS AMENDED AND RESTATED 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 Amended and Restated 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 **$1,500,000** 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:

"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. For this purpose, "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.

"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.

"BMS License" means the License Agreement, by and between Bristol-Myers Squibb Company and Ayala Pharmaceuticals, Inc., dated as of November 29, 2017, as amended.

"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.

"Financing Transaction" shall mean any transaction through which the Company issues shares of Common Stock or other equity securities to one or more third parties in consideration for at least $10 million, in the aggregate, in gross proceeds to the Company from new investors either through a registration statement filed with the SEC or a private investment in public equity or otherwise. For the sake of clarity, the conversion of this Note (or other convertible securities outstanding on the AR Date) shall not be counted towards the aforesaid $10 million.

"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), the Warrants 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.

"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).

"Warrant" means the Warrant in the form attached hereto as **Exhibit A** issued by the Company on the AR Date to Holder.

"Underlying Shares" means the Conversion Shares.

Section 2. Funding.

a) Funding. Ayala acknowledges that, consistent with the Original Note (as defined below), on or about September 1, 2023, the Holder has wired to the Company a sum in cash equal to the principal amount set forth in the recital hereto.

b) Warrant. On the AR Date, the Company shall issue to the Holder a warrant to purchase shares of the Common Stock, on the terms and conditions set forth in the Warrant. The number of shares of Common Stock for which the Warrant issued shall be initially exercisable for shall equal to the quotient obtained by (x) principal amount divided by (y) 50% of the Common Stock's price per share as of market close immediately prior to the AR Date multiplied by (z) 150%.

c) No Prepayment. For the sake of clarity, the Company shall not be entitled to prepay the principal amount without the prior written consent of the Holder.

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 seven percent (7%) (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 and/or acceleration whether as a result of an Event of Default or otherwise with respect to the principal amount being so converted 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 (i) Financing Transaction, or (ii) a Change of Control Transaction, 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 Financing Transaction or Change of Control Transaction, as the case may be, and such conversion shall become effective immediately prior to the closing of such Financing Transaction or Change of Control 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. The conversion price in effect on any Conversion Date shall be equal to the lower of (i) 50% of the Common Stock's price per share as of market close immediately prior to the AR Date and (ii) 50% of 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 Financing 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 to the lower of (A) the Conversion Price as determined by clauses (i) and (ii) above and (B) fifty percent (50%) of the lowest price per share offered in the Financing Transaction and (ii) if the Financing Transaction entails the issuance of warrants (or similar instruments) to the investors in the Financing Transaction and such warrants (or similar instruments) are issued based on a coverage of more than 150% over the investment amount therein (such excess, in percentage terms, the "Warrant Coverage Excess Percentage"), then Holder shall be entitled to receive, upon conversion of this Note, warrants on the same terms issuable in the Financing Transaction (with the number of warrants to be issued to Holder being calculated based on a Warrant Coverage Excess Percentage of the principal (and interest accrued thereon) of this Note). 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, subject to the last sentence of this Section 5(d)(vi), 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. The Company represents and warrants that, as of the AR Date, it has reserved a total of at least 100,000,000 shares of Common Stock for the conversion of this Note or the Warrants issued to the Holder, or of any other convertible securities (i) issued by the Company to Holder (including under the Senior Promissory Notes and the Warrants issued on the AR Date to other lenders) and (ii) issuable by the Company under the Side Letter Agreement, dated as of the AR Date, between the Company, the Holder and the additional parties thereto (the securities referenced in clauses (i) and (ii), collectively, the "Reserved Securities"). Should the number of shares necessary to satisfy the covenant set forth in the first sentence of this Section 5(d)(vi) be greater than (A) the total number of authorized shares of Common Stock, *minus* (B) the total of (1) the issued shares of Common Stock as of the date of measurement, (2) the shares of Common Stock reserved for issuance by the Company as of the AR Date, and (3) the Reserved Securities, then the failure to reserve shares of Common Stock with respect to such overage shall, subject to the following provisos, not be a violation of the covenant set forth in such first sentence; provided, however, that (i) the Company undertakes that, in such event (an "Event", and the date on which such Event occurs being referred to as an "Event Date"), it shall use its best efforts either (X) to obtain, as promptly as possible, such approvals of the Company's stockholders as may be required to increase its authorized shares so as to eliminate such overage (which proxy statement for such meeting shall include the recommendation of the Company's Board of Directors that such proposal is approved) (the "Authorized Share Approvals"), and to implement such increase promptly upon receiving such approval, or (Y) to promptly implement a reverse stock split of the outstanding shares of Common Stock, such that sufficient authorized shares are available to eliminate such overage (the "Required Reverse Split"); (ii) until such Authorized Share Approvals are obtained and implemented or such Required Reverse Split is implemented, it shall not, without the prior written consent of the Holder, enter into nor consummate any Financing Transaction or Change of Control Transaction nor, except for the issuance of any shares included in clauses (B)(2) and (B)(3) above, issue any shares of Common Stock or Common Stock Equivalents; and (iii) the Company undertakes that it shall use its best efforts to obtain, in its next annual (or special, if any) meeting of stockholders, such approvals of the Company's stockholders as may be required to increase its authorized shares of Common Stock to 300,000,000.

If the Authorized Share Approvals or Required Reverse Split have not been obtained and implemented within 90 days following the Event Date, then, in addition to any other rights the Holder may have hereunder or under applicable law, on each monthly anniversary of each such Event Date (if the Event shall not have been cured by such date) until the applicable Event is cured, the Company shall pay to Holder an amount in cash, as partial liquidated damages and not as a penalty, equal to the product of 2.0% multiplied by the aggregate principal amount. If the Company fails to pay any partial liquidated damages pursuant to this Section in full within seven (7) days after the date payable, the Company will pay interest thereon at an interest rate equal to the lesser of (i) five percent (5%) per annum in excess of the rate otherwise applicable to this Note and (ii) the maximum rate permitted under applicable law (with a credit for any "unused" guaranteed interest).

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.

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"), and Section 5(b) hereof does not apply to such 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 Financing Transaction or a 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; Certain Covenants.

a) Representation and Warranties of the Company. The Company represents and warrants to the Holder that as of the date hereof and as of the AR Date:

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 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).

c) Covenants of the Company. The Company hereby undertakes that proceeds of the sale and issuance of the Note and the other promissory notes issued on the AR Date 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 revised annual budget, a copy of which has been delivered to the Holder prior to the AR Date, as may be modified from time to time by written consent of the Company and the Holder.

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 (it being agreed that Section 7(c) constitutes a material covenant), 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;

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

ix. the occurrence of any default under, redemption of or acceleration prior to maturity of an aggregate of any Indebtedness of the Company or any of its Subsidiaries in excess of $100,000, or the occurrence or existence of any event of default for which the Company has received a notice from the lender under any outstanding loan or credit facility in connection with a breach of a financial covenant set forth in the governing agreement of such loan or credit facility which has not been cured within twenty (20) Business Days;

x. a final judgment or judgments for the payment of money aggregating in excess of $250,000 are rendered against the Company and/or any of its Subsidiaries and which judgments are not, within thirty (30) days after the entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within thirty (30) days after the expiration of such stay; provided, however, any judgment which is covered by insurance or an indemnity from a credit worthy party shall not be included in calculating the $250,000 amount set forth above so long as the Company provides the Holder a written statement from such insurer or indemnity provider (which written statement shall be reasonably satisfactory to the Holder) to the effect that such judgment is covered by insurance or an indemnity and the Company or such Subsidiary (as the case may be) will receive the proceeds of such insurance or indemnity within thirty (30) days of the issuance of such judgment; and

xi. the Company and/or any Subsidiary, individually or in the aggregate, either (i) fails to pay, when due, or within any applicable grace period, any payment with respect to any Indebtedness in excess of $250,000 due to any third party (other than, with respect to unsecured Indebtedness only, payments contested by the Company and/or such Subsidiary (as the case may be) in good faith by proper proceedings and with respect to which adequate reserves have been set aside for the payment thereof in accordance with GAAP) or is otherwise in breach or violation of any agreement for monies owed or owing in an amount in excess of $250,000, which breach or violation permits the other party thereto to declare a default or otherwise accelerate amounts due thereunder, or (ii) suffer to exist any other circumstance or event that would, with or without the passage of time or the giving of notice, result in a default or event of default under any agreement binding the Company or any Subsidiary, which default or event of default would or is likely to have a material adverse effect on the business, assets, operations (including results thereof), liabilities, properties, condition (including financial condition) or prospects of the Company or any of its Subsidiaries, individually or in the aggregate.

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) five percent (5%) 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, unless it obtains the prior written consent of the Holder (in its full discretion):

(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, 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 which 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. This Note is a direct debt obligation of the Company. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal or interest amount hereof, the Company may not refuse conversion based on any claim that the Holder or anyone associated or Affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason.

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 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, the Warrants 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.

p) Original Note. This Note amends and restates the Senior Secured Convertible Promissory Note dated August 7, 2023, as amended, restated, replaced, supplemented or modified, made by the Company in favor of Israel Biotech Fund I, L.P. in an original principal amount of $2,000,000 (and thereafter partially assigned to Israel Biotech Fund II, L.P.) (the "Original Note"). This Note shall constitute a modification of the terms of the Original Note and evidences the same indebtedness that existed under the Original Note. To the extent that any rights, benefits or provisions in favor of Holder existed in the Original Note as of the date hereof, then such rights, benefits or provisions are acknowledged to be and to continue to be effective from and after the date of the Original Note. The Company and Holder agree and acknowledge that any and all rights, remedies and payment provisions under the Original Note, as hereby amended and restated, shall continue and survive the execution and delivery of this Note. The Company and Holder further agree and acknowledge that any and all amounts owing or otherwise due under or pursuant to the Original Note immediately prior to the effectiveness of this Note shall be owing and otherwise due pursuant to this Note. All references to the Original Note in any agreement, instrument or document executed or delivered in connection herewith or therewith shall be deemed to refer to this Note, as the same may be amended, restated, supplemented or otherwise modified from time to time.

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(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

Exhibit A

Form of Warrant to Purchase Shares of Common Stock

(See attached.)

Exhibit 10.2

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: November 17, 2023 Principal Amount: $750,000

SENIOR CONVERTIBLE PROMISSORY NOTE
DUE November 17, 2028

THIS SENIOR 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 Convertible Promissory Note due November 17, 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 **$750,000.00** on November 17, 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:

"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. For this purpose, "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.

"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.

"BMS License" means the License Agreement, by and between Bristol-Myers Squibb Company and Ayala Pharmaceuticals, Inc., dated as of November 29, 2017, as amended.

"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.

"Financing Transaction" shall mean any transaction through which the Company issues shares of Common Stock or other equity securities to one or more third parties in consideration for at least $10 million, in the aggregate, in gross proceeds to the Company from new investors either through a registration statement filed with the SEC or a private investment in public equity or otherwise. For the sake of clarity, the conversion of this Note (or other convertible securities outstanding on the date hereof) shall not be counted towards the aforesaid $10 million.

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

"IBF Senior Secured Notes" means that Senior Secured Convertible Promissory Notes, dated August 7, 2023, as partially assigned from Israel Biotech Fund I, L.P. to Israel Biotech Fund II, L.P. and as amended and restated on the date hereof.

"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 Registration Rights Agreement, the Subordination Agreement, the Side Letter Agreement, the Warrants 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.

"Optional Mandatory Notice" shall have the meaning set forth in Section 5(b).

"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 as well as Indebtedness under, and the Liabilities of the Company pursuant to, the other promissory notes comprising the Series, (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, including, for the sake of clarity, the IBF Senior Secured Notes.

"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.

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

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

"Required Majority" shall have the meaning set forth in Section 2(b).

"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.

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

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

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

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

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

"Subsequent Convertible Securities" means convertible debt securities that the Company may issue after the date hereof with the principal purpose of raising capital. For the sake of clarity, the IBF Senior Secured Notes are not considered Subsequent Convertible Securities.

"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.

"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).

"Warrant" means the Warrant in the form attached hereto as **Exhibit A** issued by the Company on the date hereof to Holder.

"Underlying Shares" means the Conversion Shares.

Section 2. Funding.

a) Funding. On or about the date hereof, the Holder has wired to the Company a sum in cash equal to the principal amount set forth in the recital hereto.

b) Warrant. Upon execution of this Note, the Company shall issue to the Holder a warrant to purchase shares of the Common Stock, on the terms and conditions set forth in the Warrant. The number of shares of Common Stock for which the Warrant shall be initially exercisable shall be equal to the quotient obtained by (x) principal amount divided by (y) 50% of the Common Stock's price per share as of market close immediately prior to the date hereof multiplied by (z) 150%.

c) No Prepayment. For the sake of clarity, the Company shall not be entitled to prepay the principal amount without the prior written consent of the Required Majority (as defined below).

d) Notes Constituting a Series. The Holder acknowledges and agrees that this Note is one of a series of promissory notes (the "Series") issued by the Company in the aggregate amount (including this Note) of $4 million, each of which promissory notes is identical except for one or more of the identity of the lender/holder thereunder and the principal amount of each such promissory note. The Holder, by its acceptance of this Note, acknowledges and agrees that the rights that it may exercise upon the occurrence of an Event of Default (as defined below) and any amendment of the terms and provisions of this Note shall only be exercised upon the approval of holders of promissory notes of the Series with an aggregate outstanding principal amount of more than 50% of the aggregate outstanding principal amount of all of the promissory notes constituting the Series (the "Required Majority").

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 seven percent (7%) (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 and/or acceleration whether as a result of an Event of Default or otherwise with respect to the principal amount being so converted 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 (i) Financing Transaction, (ii) a Change of Control Transaction, or (iii) the written notice by holders of the Required Majority detailing the demand to convert all of the Series (the "Optional Mandatory Notice"), 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 Financing Transaction or Change of Control Transaction or the Optional Mandatory Notice (if any condition is indicated in such notice), as the case may be, and such conversion shall become effective immediately prior to the closing of such Financing Transaction or Change of Control Transaction or, if applicable, the condition set forth in the Optional Mandatory Notice. 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. The conversion price in effect on any Conversion Date shall be equal to the lower of (i) 50% of the Common Stock's price per share as of market close immediately prior to the date hereof and (ii) 50% of 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 Financing 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 to the lower of (A) the Conversion Price as determined by clauses (i) and (ii) above and (B) fifty percent (50%) of the lowest price per share offered in the Financing Transaction and (ii) if the Financing Transaction entails the issuance of warrants (or similar instruments) to the investors in the Financing Transaction and such warrants (or similar instruments) are issued based on a coverage of more than 150% over the investment amount therein (such excess, in percentage terms, the "Warrant Coverage Excess Percentage"), then Holder shall be entitled to receive, upon conversion of this Note, warrants on the same terms issuable in the Financing Transaction (with the number of warrants to be issued to Holder being calculated based on a Warrant Coverage Excess Percentage of the principal (and interest accrued thereon) of this Note). 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, subject to the last sentence of this Section 5(d)(vi), 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. The Company represents and warrants that, as of the date hereof, it has reserved a total of at least 100,000,000 shares of Common Stock for the conversion of this and other Notes in the Series or the Warrants issued to the Lenders in the Series, or of any other convertible securities (i) issued by the Company to any such Lender (including under the IBF Senior Secured Notes and the Warrants issued thereunder) and (ii) issuable by the Company under the Side Letter Agreement (the securities referenced in clauses (i) and (ii), collectively, the "Reserved Securities"). Should the number of shares necessary to satisfy the covenant set forth in the first sentence of this Section 5(d)(vi) be greater than (A) the total number of authorized shares of Common Stock, *minus* (B) the total of (1) the issued shares of Common Stock as of the date of measurement, (2) the shares of Common Stock reserved for issuance by the Company as of the date of this Note, and (3) the Reserved Securities, then the failure to reserve shares of Common Stock with respect to such overage shall, subject to the following provisos, not be a violation of the covenant set forth in such first sentence; provided, however, that (i) the Company undertakes that, in such event (an "Event", and the date on which such Event occurs being referred to as an "Event Date"), it shall use its best efforts either (X) to obtain, as promptly as possible, such approvals of the Company's stockholders as may be required to increase its authorized shares so as to eliminate such overage (which proxy statement for such meeting shall include the recommendation of the Company's Board of Directors that such proposal is approved) (the "Authorized Share Approvals"), and to implement such increase promptly upon receiving such approval, or (Y) to promptly implement a reverse stock split of the outstanding shares of Common Stock, such that sufficient authorized shares are available to eliminate such overage (the "Required Reverse Split"); (ii) until such Authorized Share Approvals are obtained and implemented or such Required Reverse Split is implemented, it shall not, without the prior written consent of the Required Majority, enter into nor consummate any Financing Transaction or Change of Control Transaction nor, except for the issuance of any shares included in clauses (B)(2) and (B)(3) above, issue any shares of Common Stock or Common Stock Equivalents; and (iii) the Company undertakes that it shall use its best efforts to obtain, in its next annual (or special, if any) meeting of stockholders, such approvals of the Company's stockholders as may be required to increase its authorized shares of Common Stock to 300,000,000.

If the Authorized Share Approvals or Required Reverse Split have not been obtained and implemented within 90 days following the Event Date, then, in addition to any other rights the Holder may have hereunder or under applicable law, on each monthly anniversary of each such Event Date (if the Event shall not have been cured by such date) until the applicable Event is cured, the Company shall pay to Holder an amount in cash, as partial liquidated damages and not as a penalty, equal to the product of 2.0% multiplied by the aggregate principal amount. If the Company fails to pay any partial liquidated damages pursuant to this Section in full within seven (7) days after the date payable, the Company will pay interest thereon at an interest rate equal to the lesser of (i) five percent (5%) per annum in excess of the rate otherwise applicable to this Note and (ii) the maximum rate permitted under applicable law (with a credit for any "unused" guaranteed interest).

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.

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"), and Section 5(b) hereof does not apply to such 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 Financing Transaction or a 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; Certain Covenants.

a) Representation and Warranties of the Company. The Company represents and warrants to the Holder as follows:

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. [Reserved].

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.

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 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).

c) Covenants of the Company. The Company hereby undertakes that proceeds of the sale and issuance of the Note and the other notes of the Series 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 revised annual budget, a copy of which has been delivered to the Holder prior to the date hereof, as may be modified from time to time by written consent of the Company and the Required Majority.

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 (it being agreed that Section 7(c) constitutes a material covenant), 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 (i) any of the Loan Documents or (ii) the IBF Senior Secured Notes;

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) five percent (5%) 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, unless it obtains the prior written consent of the Required Majority (in its full discretion):

(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, 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 which 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. This Note is a direct debt obligation of the Company. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal or interest amount hereof, the Company may not refuse conversion based on any claim that the Holder or anyone associated or Affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason.

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 holders of the Required Majority, which amendment shall be binding on all successors and assigns. Any provision of this Note may be waived by the party seeking enforcement thereof (holders of the Required Majority in the case of holders of the Series), which waiver shall be binding on all successors and assigns. Any waiver by the Company or holders of the Required Majority must be in writing. Any waiver by the Company or holders of the Required Majority 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 holders of the Required Majority 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 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) [Reserved].

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 and in connection with any amendment, including, without limitation, the reasonable fees and disbursements of outside counsel to the Holder.

****

(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

Exhibit A

Form of Warrant to Purchase Shares of Common Stock

(See attached.)

Exhibit 10.3

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: As specified below Issue Date: November 17, 2023

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 November 17, 2023 (the "Initial Exercise Date") and on or prior to 5:00 p.m. (New York City time) on November 17, 2028 (the "Termination Date"), but not thereafter, to subscribe for and purchase from AYALA PHARMACEUTICALS, INC., a Delaware corporation (the "Company"), up to **2,812,500** shares of its 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 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Senior Convertible Promissory Note (the "Note"), dated as of the date hereof, among the Company and the Holder. "Trading Day" means a day on which The Nasdaq Stock Market is open for trading.

Section 2. 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 equal to the lower of (A) 50% of the Common Stock's price per share as of market close immediately prior to the date hereof and (ii) 50% of 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 Exercise, subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. This Warrant may also be exercised, in whole or in part, at any 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:

(A) the total number of shares with respect to which the Warrants are then being exercised.

(B) 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

(C) 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.

i. 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.

ii. 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.

iii. 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.

iv. 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.

v. 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.

vi. 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.

vii. 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 3. 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"), 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) Distributions. 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.

i. 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.

ii. 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 4. 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 5. 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).

e) No Impairment. 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.

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

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

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

n) 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.

o) 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: */s/ Kenneth A. Berlin*

Name: Kenneth A. Berlin

Title: President & Chief Executive Officer

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 10.4

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: As specified below Issue Date: November 17, 2023

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 November 17, 2023 (the "Initial Exercise Date") and on or prior to 5:00 p.m. (New York City time) on November 17, 2028 (the "Termination Date"), but not thereafter, to subscribe for and purchase from AYALA PHARMACEUTICALS, INC., a Delaware corporation (the "Company"), up to **5,625,000** shares of its 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 1. Definitions. Capitalized terms used and not otherwise defined herein shall have the meanings set forth in that certain Amended and Restated Senior Secured Convertible Promissory Note (the "Note"), dated as of the date hereof, among the Company and the Holder. "Trading Day" means a day on which The Nasdaq Stock Market is open for trading.

Section 2. 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 equal to the lower of (A) 50% of the Common Stock's price per share as of market close immediately prior to the date hereof and (ii) 50% of 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 Exercise, subject to adjustment hereunder (the "Exercise Price").

c) Cashless Exercise. This Warrant may also be exercised, in whole or in part, at any 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:

(A) the total number of shares with respect to which the Warrants are then being exercised.

(B) 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

(C) 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.

i. 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.

ii. 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.

iii. 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.

iv. 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.

v. 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.

vi. 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.

vii. 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 3. 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 oct, 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"), 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) Distributions. 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.

i. 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.

ii. 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 4. 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 taxcnation 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 5. 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).

e) No Impairment. 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.

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

g) 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.

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

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

n) 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.

o) 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: */s/ Kenneth A. Berlin*

Name: Kenneth A. Berlin

Title: President and Chief Executive Officer

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 10.5

SIDE LETTER AGREEMENT (NEW NOTES)

Dated as of November 17, 2023

Reference in this Side Letter Agreement (New Notes) (this "**Agreement**") is made to (i) the Senior Secured Convertible Promissory Notes, dated August 7, 2023 (the "**Secured Notes**"), issued by Ayala Pharmaceuticals, Inc. ("**Ayala**") to Israel Biotech Fund I, L.P. ("**IBF I**") and, by virtue of partial assignment, Israel Biotech Fund II, L.P. ("**IBF II**"), (ii) the Senior Convertible Promissory Notes, dated as of the date hereof (the "**New Notes**"), issued by Ayala to IBF I, IBF II, Arkin Bio Ventures L.P. ("**ABV**"), Biotel Limited ("**Biotel**" and together with IBF I, IBF II and ABV, the "**Lenders**"), and (iii) the Side Letter Agreement for Conversion, dated as of September 11, 2023, by and among Ayala, Biosight Ltd., the Lenders and Arkin Communication Ltd. ("**ACL**" and together with the Lenders, the "**SAFE Investors**") and the other investors named on the signature pages thereto (the "**SAFE Side Letter**"). Capitalized terms used, but not defined, in this Agreement shall have the meanings ascribed to them in the New Notes.

WHEREAS, concurrently herewith, the Lenders will be providing Ayala loans in the aggregate amount of $4 million against the issuance by Ayala of the New Notes and the delivery of the other Loan Documents; and

WHEREAS, as a condition and inducement to the willingness of Lenders to provide Ayala with the aforesaid loans, the parties desire to enter into this Agreement;

NOW THEREFORE, for good and valuable consideration, and intending to be legally bound hereby, the parties hereto agree as follows:

1. **SAFE Side Letter – Uninvested Amounts**. Ayala and the SAFE Investors hereby agree to amend the SAFE Side Letter (solely as between Ayala and the SAFE Investors) as follows:

a. In lieu of the SAFE Investors' right to invest the Uninvested Amounts pursuant to Sections 2 or 3 of the SAFE Side Letter, each of the SAFE Investors shall have the right (but not the obligation) to invest up to all of the portion, if any, of the amount set forth opposite such the SAFE Investor's name in **Exhibit A1** hereto (the "**SAFE Uninvested Amount**") in Ayala, by way of delivering a written notice to Ayala (which notice shall indicate the portion of the SAFE Uninvested Amount that the SAFE Investor wishes to invest) (the "**SAFE Notice**") at any time during the SAFE Exercise Period (as defined below), and purchase Senior Convertible Promissory Notes on the same terms as the New Notes (the "**SAFE New Notes**"); *it being clarified that* (i) the principal amount of such SAFE New Notes shall not exceed the SAFE Investors' SAFE Uninvested Amount, (ii) upon issuance of such SAFE New Notes, the SAFE Investor will also be issued Warrants as contemplated by the SAFE New Notes (the "**New Warrants**"), (iii) the Maturity Date of such SAFE New Notes and the Termination Date of such New Warrants shall be the fifth (5^{th}) anniversary of the date hereof (and not the date of the SAFE Notice), (iv) the Conversion Price of such SAFE New Notes shall be the same as the New Notes, it being clarified that the "date hereof" in clause (A) of Section 5(c) of the New Notes ("50% of the Common Stock's price per share as of market close immediately prior to the date hereof") shall mean the date of the New Notes (and not the date of the SAFE Notice), and (v) the Exercise Price of such New Warrants shall be the same as the New Warrants, it being clarified that the "date hereof" in clause (A) of Section 2(b) of the New Warrants ("50% of the Common Stock's price per share as of market close immediately prior to the date hereof") shall mean the date of the New Warrants (and not the date of the SAFE Notice).

b. Should any SAFE Investor timely deliver the SAFE Notice, Ayala shall, within three (3) Trading Days thereafter, (i) issue the SAFE New Notes and New Warrants to the SAFE Investor against wire of the applicable portion of the SAFE Uninvested Amount and (ii) enter into a registration rights agreement with the SAFE Investor in the form of the Registration Rights Agreement (as defined in the New Notes), subject to applicable changes.

c. "**SAFE Exercise Period**" means the period from the date hereof and until the earliest of (i) the fifth (5^{th}) anniversary of the date hereof, (ii) the date of consummation of a Change of Control Transaction (provided that Ayala provided timely written notice thereof to Lenders pursuant to the terms of the New Notes), and (iii) the date of consummation of a Financing Transaction (provided that Ayala provided timely written notice thereof to Lenders pursuant to the terms of the New Notes).

d. Section 4 of the SAFE Side Letter is hereby amended and restated in its entirety as follows:

"The mechanics of conversion, including timing of delivery of the Conversion Shares, under paragraph 1, 2 and 3 hereof shall be substantially the same as the mechanics of conversion, including timing of delivery of the Conversion Shares, in the Senior Convertible Promissory Notes, dated as of November 17, 2023 (the "**New Notes**") (including consequences of failure or delay in delivery). Without derogating from the generality of the foregoing, it is hereby clarified that the representations and warranties made by Ayala in the New Notes shall apply, mutatis mutandis, to the conversion and issuance of the Conversion Shares."

e. It is hereby agreed that the SAFE Investors may freely assign such right to invest the Uninvested Amounts to their Affiliates as well as among the SAFE Investors.

2. **Additional Optional Investment in Promissory Notes**.

a. Each of the Lenders shall have the right (but not the obligation) to invest up to all of the portion, if any, of the amount set forth opposite such the Lenders' name in **Exhibit A2** hereto (the "**Additional Loan Amount**") in Ayala, by way of delivering a written notice to Ayala (which notice shall indicate the portion of the Additional Loan Amount that the Lenders wishes to invest) (the "**Loan Notice**") at any time during the Loan Exercise Period (as defined below), and purchase Senior Convertible Promissory Notes on the same terms as the New Notes (the "**Loan New Notes**"); *it being clarified that* (i) the principal amount of such Loan New Notes to be issued to any Lender shall not exceed such Lender's Additional Loan Amount, (ii) upon issuance of such Loan New Notes, the applicable Lender will also be issued Warrants as contemplated by the Loan New Notes (the "**New Loan Warrants**"), (iii) the Maturity Date of such Loan New Notes and the Termination Date of such New Loan Warrants shall be the fifth (5^{th}) anniversary of the date hereof (and not the date of the Loan Notice), (iv) the Conversion Price of such Loan New Notes shall be the same as the New Notes, it being clarified that the "date hereof" in clause (A) of Section 5(c) of the New Notes ("50% of the Common Stock's price per share as of market close immediately prior to the date hereof") shall mean the date of the New Notes (and not the date of the Loan Notice), and (v) the Exercise Price of such New Loan Warrants shall be the same as the New Warrants, it being clarified that the "date hereof" in clause (A) of Section 2(b) of the New Loan Warrants ("50% of the Common Stock's price per share as of market close immediately prior to the date hereof") shall mean the date of the New Warrants (and not the date of the Loan Notice).

b. Should any Lender timely deliver the Loan Notice, Ayala shall, within three (3) Trading Days thereafter, (i) issue the Loan New Notes and New Loan Warrants to the Lender against wire of the applicable portion of the Additional Loan Amount and (ii) enter into a registration rights agreement with the Lender in the form of the Registration Rights Agreement (as defined in the New Notes), subject to applicable changes.

c. "**Loan Exercise Period**" means the period from the date hereof and until the earliest of (i) the six (6^{th}) month anniversary of the date hereof, (ii) the date of consummation of a Change of Control Transaction (provided that Ayala provided timely written notice thereof to Lenders pursuant to the terms of the New Notes), and (iii) the date of consummation of a Financing Transaction (provided that Ayala provided timely written notice thereof to Lenders pursuant to the terms of the New Notes).

d. It is hereby agreed that the Lenders may freely assign such right to invest their respective Additional Loan Amounts to their Affiliates as well as among the Lenders; provided, that the aggregate Additional Loan Amount shall not be increased as a result of any such assignment.

3. **Secured Notes**. On the date hereof, Ayala is issuing Amended and Restated Senior Secured Convertible Promissory Notes to IBF I and IBF II (the "**New Secured Notes**"), in lieu of the Secured Notes. Ayala hereby clarifies and agrees that the Security Agreement and the Subsidiary Guarantee (as such terms are defined in the Secured Notes) apply to the New Secured Notes.

4. **Representations and Warranties**. Ayala hereby represents and warrants to the SAFE Investors as follows: (i) Ayala is an entity duly incorporated or otherwise organized and validly existing, and in good standing, under the laws of the jurisdiction of its incorporation; (ii) all corporate action on the part of Ayala, its officers, directors and stockholders necessary for the authorization, execution and delivery of this Agreement and the performance of all obligations of Ayala under this Agreement have been taken on or prior to the date hereof; and (iii) no direct or indirect consent, approval, authorization or similar item is required to be obtained by Ayala to enter into this Agreement and to perform or undertake any of the transactions contemplated pursuant to this Agreement, except for such consents as have already been received.

5. **Governing Law; Venue**. All questions concerning the construction, validity, enforcement and interpretation of this Agreement 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 this Agreement (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 this Agreement), 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 Agreement or the transactions contemplated hereby.

6. **Miscellaneous**. Any provision of this Agreement may be amended or waived by a written instrument executed by Ayala and the Required Majority (as defined in the New Notes), which amendment or waiver shall be binding on all successors and assigns. Any provision of this Agreement may be waived by the party seeking enforcement thereof, which waiver shall be binding on all successors and assigns. Any waiver by Ayala or the SAFE Investors of a breach of any provision of this Agreement 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 Agreement. The failure of Ayala or the SAFE Investors to insist upon strict adherence to any term of this Agreement 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 Agreement on any other occasion. If any provision of this Agreement is invalid, illegal or unenforceable, the balance of this Agreement 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. Two duplicate originals of this Agreement may be executed by the undersigned, each of which shall be an original, but all of which together shall constitute one and the same instrument. Facsimile and electronic format copies of this Agreement shall have the same force and effect as an original.

7. **Reimbursement of Fees**. The Company will reimburse, on the date hereof, IBF I and IBF II for actual legal fees incurred in connection with the negotiation of this Agreement, the other Loan Documents and the Secured Notes in an amount not to exceed $12,000 plus VAT.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed this Side Letter Agreement (New Notes) as of the date first written above by their respective officers thereunto duly authorized.

COMPANY:

Ayala Pharmaceuticals, Inc.

/s/ Kenneth A. Berlin
Kenneth A. Berlin
Chief Executive Officer

IN WITNESS WHEREOF, the undersigned have executed this Side Letter Agreement (New Notes) as of the date first written above by their respective officers thereunto duly authorized.

SAFE INVESTORS:

Israel Biotech Fund II, L.P.
By its General Partner:
Israel Biotech Fund GP Partners II, L.P.
By its General Partner: I.B.F. Management Ltd.

By: */s/ Ido Zairi*
Name: Ido Zairi
Title: Director
Address: 4 Oppenheimer St., Rehovot Israel
Email: sarit@ibf.fund

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: 4 Oppenheimer St., Rehovot Israel
Email: sarit@ibf.fund

IN WITNESS WHEREOF, the undersigned have executed this Side Letter Agreement (New Notes) as of the date first written above by their respective officers thereunto duly authorized.

SAFE INVESTORS:

Arkin Bio Ventures L.P.
By its General Partner:
Arkin Bio Ventures Partners Ltd.

By: */s/ Moshe Arkin*
Name: Moshe Arkin
Title: Director
Address:
Email:

Arkin Communication Ltd.

By: */s/ Moshe Arkin*
Name: Moshe Arkin
Title: Director
Address:
Email:

IN WITNESS WHEREOF, the undersigned have executed this Side Letter Agreement (New Notes) as of the date first written above by their respective officers thereunto duly authorized.

SAFE INVESTORS:

Biotel Limited

By: */s/ Rodney Hodges*
Name: Rodney Hodges
Title: duly authorized by Champel Directors Limited to sign on its behalf as corporate director of Biotel Limited
Address:
Email:

EXHIBIT A1

SAFE UNINVESTED AMOUNT

INVESTOR/ LENDER	SAFE UNINVESTED AMOUNT
Israel Biotech Fund I, L.P.	$ 504,000
Israel Biotech Fund II, L.P.	$ 504,000
Arkin Bio Ventures L.P.	$ 270,000
Arkin Communication Ltd.	$ 108,000
Biotel Limited	$ 72,000
Total	*$ 1,458,000*

EXHIBIT A2

ADDITIONAL LOAN AMOUNT

INVESTOR/ LENDER	ADDITIONAL LOAN AMOUNT
Israel Biotech Fund I, L.P.	$ 750,000
Israel Biotech Fund II, L.P.	$ 1,650,000
Arkin Bio Ventures L.P.	$ 1,500,000
Biotel Limited	$ 100,000
Total	*$ 4,000,000*

Exhibit 10.6

SUBORDINATION AGREEMENT

THIS SUBORDINATION AGREEMENT (this "**Agreement**") dated as of November 17, 2023, is entered into by and among the entities detailed as Subordinated Creditors on the signature page hereto ("**Subordinated Creditor**"), **ISRAEL BIOTECH FUND I, L.P. ("IBF I")** and **ISRAEL BIOTECH FUND II, L.P.** ("**IBF II**" and, together with IBF I, solely in their capacities as such, "**Senior Creditors**") and **AYALA PHARMACEUTICALS, INC**., a Delaware corporation (the "**Company**").

Recitals

A. Pursuant to certain Senior Secured Convertible Promissory Notes dated August 7, 2023 (as partially assigned from IBF I to IBF II and as amended and restated, the "**Loan Notes**") entered into between the Company and the Senior Creditors, the Company is required to pay the Senior Creditors certain amounts, including interest, pursuant to the terms thereof ("**Note Amounts**");

B. As security for the performance of the Company's obligations, existing now or later, under the Loan Notes (the "**Senior Secured Obligations**"), including, without limitation, payment of the Note Amounts (the "**Senior Debt**"), the Company has, among other things, entered into a Security Agreement (as defined in the Loan Notes);

C. Pursuant to certain Senior Convertible Promissory Notes (the "**New Notes**"), dated as of the date hereof, entered into between the Company and the Subordinated Creditors, the Company is required to pay the Subordinated Creditors certain amounts, including interest, pursuant to the terms thereof (the "**Subordinated Debt**");

NOW, THEREFORE, in consideration of the aforesaid premises and other good and valuable consideration, the sufficiency of which is hereby acknowledged, the parties hereby covenant and agree as follows:

1. Each of the Subordinated Creditors hereby undertakes and agrees that (i) any and all of its rights with respect to the Subordinated Debt payments are and shall be at all times subordinated to the Senior Creditors' rights with respect to the Senior Debt payments in all respects, including, without limitation, in terms of ranking, liquidation preference, guaranties and maturity, and (ii) it shall not have any security interest in any property or assets of Company or its subsidiaries.

2. Each of the Subordinated Creditors hereby undertakes and agrees that payment of the Subordinated Debt will only commence following full payment of the Senior Debt; *provided however* that the Company will be entitled to pay cash interest payments to the Subordinated Creditors on the principal amount of the Subordinated Debt pursuant to the agreement between the Subordinated Creditors and the Company as long as (i) interest payments (including default interest, if any) are also made to the Senior Creditors pursuant to the Loan Notes and (ii) there is no Event of Default pursuant to the terms the Loan Notes.

3. Each of the Subordinated Creditors further undertakes that it will not, without the prior written consent of the Senior Creditors:

(a) demand or receive from the Company (and the Company will not pay) any part of the Subordinated Debt, by payment, prepayment, or otherwise (with the exception of (i) interest payments as and to the extent permitted pursuant to Section 2 above and (ii) conversion of the Subordinated Debt into equity securities in accordance with the terms of the New Notes),

(b) exercise any remedy against the Company or any collateral, including, the filing any attachment and/or receivership application in respect of the assets of the Company or any of its subsidiaries, or

(c) take any winding-up proceedings and/or compromise or arrangement proceedings in connection with the Company.

4. Each of the Subordinated Creditors must deliver to the Senior Creditors in the form received any payment, distribution, security or proceeds it receives on the Subordinated Debt (with the exceptions permitted pursuant to Section 3(a) above).

5. These provisions shall remain in full force and effect, despite the Company's insolvency, reorganization or any case or proceeding under any bankruptcy or insolvency law, and the Senior Creditors' claims against the Company will be fully paid before any payment is made to the Subordinated Creditors (with the exceptions permitted pursuant to Section 3(a) above).

6. No amendment of the Subordinated Debt documents will modify this Agreement in any way that terminates or impairs the subordination of the Subordinated Debt.

7. Each of the Subordinated Creditors will ensure that all Subordinated Debt instruments will include a provision pursuant to which the Subordinated Debt instrument is non assignable or transferrable unless the assignee executes a subordination agreement in the form of this Agreement.

8. This Agreement is effective while the Company owes any amounts under the Senior Debt. At any time without notice to the Subordinated Creditors (but with the consent of the Company, to the extent applicable), each of the Senior Creditors may take actions it considers appropriate on the Senior Debt such as terminating advances, increasing the principal, extending the time of payment, increasing interest rates, renewing, compromising or otherwise amending any documents affecting the Senior Debt and any collateral securing the Senior Debt, and enforcing or failing to enforce any rights against Company or any other person. No action or inaction will impair or otherwise affect Senior Creditors' rights under this Agreement.

9. Each of the Subordinated Creditors hereby represents that all necessary action on the part of the Subordinated Creditor, its respective officers, directors, partners, members and shareholders, as applicable, necessary for the authorization of this Agreement and the performance of all obligations hereunder has been taken. Additionally, the execution, delivery and performance of and compliance with this Agreement will not result in any material violation or default of any term of any of the Subordinated Creditor's charter, formation or other organizational documents (such as Articles or Certificate of Incorporation, bylaws, partnership agreement, operating agreement, etc.).

10. This Agreement binds each of the Subordinated Creditors, its successors or assigns, and benefits Senior Creditor's successors or assigns. This Agreement is for the benefit of each Subordinated Creditors and the Senior Creditors and not for the benefit of the Company or any other party. This Agreement shall not impose any obligation on the Company.

11. This Agreement may be executed in two or more counterparts, each of which is an original and all of which together constitute one instrument.

12. All questions concerning the construction, validity, enforcement and interpretation of this Agreement 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 this Agreement (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 this Agreement), 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 Agreement or the transactions contemplated hereby.

13. This Agreement represents the entire agreement about this subject matter, and supersedes prior negotiations or agreements. Each of the Subordinated Creditors is not relying on any representations by the Senior Creditor or the Company in entering into this Agreement. This Agreement may be amended only by written instrument signed by the Subordinated Creditors and the Senior Creditors.

14. If there is an action to enforce the rights of a party under this Agreement, the party prevailing, in addition to other relief, all reasonable costs and expenses, including reasonable attorneys' fees, incurred in the action from the other party.

[SIGNATURES ON THE FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be duly executed and delivered as of the date first written above.

Senior Creditors:

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

ISRAEL BIOTECH FUND II, L.P.

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

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

IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be duly executed and delivered as of the date first written above.

Company:

AYALA PHARMACEUTICALS, INC.

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

IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be duly executed and delivered as of the date first written above.

Subordinated Creditors (solely in their capacities as such):

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

ISRAEL BIOTECH FUND II, L.P.

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

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

IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be duly executed and delivered as of the date first written above.

Subordinated Creditors:

ARKIN BIO VENTURES L.P.
By its General Partner:
Arkin Bio Ventures Partners Ltd.

By: */s/ Moshe Arkin*
Name: Moshe Arkin
Title: Director

IN WITNESS WHEREOF, the parties hereto have caused this Subordination Agreement to be duly executed and delivered as of the date first written above.

Subordinated Creditors:

BIOTEL LIMITED

By: */s/ Rodney Hodges*

Name: Rodney Hodges

Title: duly authorized by Champel Directors Limited to sign on its behalf as corporate director of Biotel Limited

Exhibit 10.7

REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into on this 17th day of November, 2023 by and among AYALA PHARMACEUTICALS, INC., a Delaware corporation (the "Company"), and the entities named in the signature pages hereto (the "Purchasers").

WHEREAS, on or about the date hereof, the Company issued to certain of the Purchasers the Senior Convertible Promissory Notes (the "Notes") and, as contemplated in the Notes, the Warrants (the "Warrants") for the purchase of shares of Common Stock; and

WHEREAS, the Purchasers and the Company desire to provide for the rights of registration under the 1933 Act as are provided herein;

NOW, THEREFORE, in consideration of the promises, covenants and conditions set forth herein, the parties hereto hereby agree as follows:

1. Certain Definitions.

Capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the Notes. As used in this Agreement, the following terms shall have the following meanings:

"Business Day" means a day, other than a Saturday or Sunday, on which commercial banks in New York City are open for the general transaction of business.

"Closing Price" as of any date means (a) the closing bid price of one share of Common Stock as reported on the Trading Market (as defined in the Notes) on such date, (b) if no closing bid price is available, the average of the high bid and the low asked price quoted on the Trading Market on such date, or (c) if the shares of Common Stock are not then quoted on the Trading Market, the value of one share of Common Stock on such date as shall be determined in good faith by the Board of Directors of the Company and the Required Majority (as defined in the Notes), provided, that if the Board of Directors of the Company and the Required Majority are unable to agree upon the value of a share of Common Stock pursuant to this subpart (c), the Company and the Required Majority shall jointly select an appraiser who is experienced in such matters. The decision of such appraiser shall be final and conclusive, and the cost of such appraiser shall be borne by the Company.

"Prospectus" shall mean the prospectus included in any Registration Statement, as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments and all material incorporated by reference in such prospectus.

"Purchasers" shall mean the Purchasers and any Affiliate or permitted transferee of any Purchaser who is a subsequent holder of any Notes or Warrants or Registrable Securities.

"Register," "registered" and "registration" refer to a registration made by preparing and filing a Registration Statement or similar document in compliance with the 1933 Act, and the declaration or ordering of effectiveness of such Registration Statement or document.

"Registrable Securities" shall mean the shares of Common Stock and Common Stock underlying Common Stock Equivalents held by the Purchasers as of the date hereof, including, without limitation, those issuable (i) upon conversion of the Notes, (ii) upon the exercise of the Warrants, and (iii) pursuant to the provisions of Sections 2(a) and 2(c) below, and any other securities issued or issuable with respect to or in exchange for Registrable Securities; provided, that, a security shall cease to be a Registrable Security upon a sale pursuant to a Registration Statement or Rule 144 under the 1933 Act.

"Registration Statement" shall mean any registration statement of the Company filed under the 1933 Act that covers the resale of any of the Registrable Securities pursuant to the provisions of this Agreement, amendments and supplements to such Registration Statement, including post-effective amendments, all exhibits and all material incorporated by reference in such Registration Statement.

"SEC" means the U.S. Securities and Exchange Commission.

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

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

2. Registration.

(a) Registration Statements.

(i) Not more than 60 days following the closing of the purchase and sale of the Notes and Warrants (the "Closing Date"), the Company shall prepare and file with the SEC one Registration Statement on Form S-3 (or, if Form S-3 is not then available to the Company, on such form of registration statement as is then available to effect a registration for resale of the Registrable Securities, subject to the Purchasers' consent), covering the resale of the Registrable Securities in an amount at least equal to no less than 100% of the maximum number of shares of Common Stock underlying the Registrable Securities. Such Registration Statement also shall cover, to the extent allowable under the 1933 Act and the rules promulgated thereunder (including Rule 416), such indeterminate number of additional Common Stock resulting from stock splits, stock dividends or similar transactions with respect to the Registrable Securities. The Registration Statement (and each amendment or supplement thereto, and each request for acceleration of effectiveness thereof) shall be provided in accordance with Section 3(c) to the Purchasers and their counsel prior to its filing or other submission.

(ii) Upon the written demand of the Required Majority in connection with any change in the Conversion Price and/or Warrant Price such that additional shares of Common Stock become issuable pursuant to the Notes and/or Warrants, the Company shall, not more than 60 days following such demand, prepare and file with the SEC one or more Registration Statements on Form S-3 (or, if Form S-3 is not then available to the Company, on such form of registration statement as is then available) to effect a registration for resale of such additional Common Stock (the "Additional Shares"), covering the resale of the Additional Shares, but only to the extent the Additional Shares are not at the time covered by an effective Registration Statement. Such Registration Statement also shall cover, to the extent allowable under the 1933 Act and the rules promulgated thereunder (including Rule 416), such indeterminate number of additional Common Stock resulting from stock splits, stock dividends or similar transactions with respect to the Additional Shares. The Registration Statement (and each amendment or supplement thereto, and each request for acceleration of effectiveness thereof) shall be provided in accordance with Section 3(c) to the Purchasers and their counsel prior to its filing or other submission. If a Registration Statement covering the Additional Shares is required to be filed under this Section 2(a)(ii) and is not filed with the SEC within 90 days of the request of the Required Majority, the Company will make pro rata payments to each Purchaser, as liquidated damages and not as a penalty, in an amount equal to two percent (2%) of the value of such Additional Shares on the date they were issuable to each Purchaser for a 30-day period or pro rata for any portion thereof following the date by which such Registration Statement should have been filed for which no Registration Statement is filed with respect to the Additional Shares. Such payments shall be in partial compensation to the Purchasers, and shall not constitute the Purchasers' exclusive remedy for such events. The amounts payable as liquidated damages pursuant to this paragraph shall be paid monthly within five (5) Business Days of the last day of each 30-day period during which the Registration Statement has not been filed. Such payment shall be made to each Purchaser in cash or, at the option of the Company, in additional fully paid and non-assessable shares of Common Stock not later than three (3) Business Days following the end of each 30-day period. Each share of Common Stock shall be deemed to have a value equal to the average of the Closing Prices for the ten (10) trading days beginning twenty (20) trading days prior to the issuance of such shares.

(b) Expenses. The Company will pay all expenses associated with each registration, including filing and printing fees, counsel and accounting fees and expenses, costs associated with clearing the Registrable Securities for sale under applicable state securities laws and listing fees and, with the exception of the initial registration hereunder, the Purchasers' reasonable expenses in connection with the registration (not to exceed $7,500 plus VAT), but excluding discounts, commissions, fees of underwriters, selling brokers, dealer managers or similar securities industry professionals with respect to the Registrable Securities being sold.

(c) Effectiveness.

(i) The Company shall use commercially reasonable efforts to have the Registration Statement declared effective as soon as practicable. If (x) a Registration Statement covering the Registrable Securities is not declared effective by the SEC within 150 days of the Closing Date, or (y) a Registration Statement covering Additional Shares is not declared effective by the SEC within 120 days following the demand of a Purchaser relating to the Additional Shares covered thereby, then the Company will make pro rata payments to each Purchaser, as liquidated damages and not as a penalty, in an amount equal to two percent (2%) of the aggregate amount invested by such Purchaser in the Notes and Warrants for any month or pro rata for any portion thereof following the date by which such Registration Statement should have been effective (the "Blackout Period"). Such payments shall be in partial compensation to the Purchasers, and shall not constitute the Purchasers' exclusive remedy for such events. The amounts payable as liquidated damages pursuant to this paragraph shall be paid monthly within three (3) Business Days of the last day of each month following the commencement of the Blackout Period until the termination of the Blackout Period. Such payment shall be made to each Purchaser in cash or, at the option of the Company, in additional fully paid and non-assessable shares of Common Stock. Each share of Common Stock shall be deemed to have a value equal to the average of the Closing Prices for the ten (10) trading days beginning twenty (20) trading days prior to the issuance of such shares.

(ii) For not more than twenty (20) consecutive days or for a total of not more than forty-five (45) days in any twelve (12) month period, the Company may delay the disclosure of material non-public information concerning the Company, by suspending the use of any Prospectus included in any registration contemplated by this Section containing such information, the disclosure of which at the time is not, in the good faith opinion of the Company, in the best interests of the Company (an "Allowed Delay"); provided, that the Company shall promptly (a) notify the Purchasers in writing of the existence of (but in no event, without the prior written consent of a Purchaser, shall the Company disclose to such Purchaser any of the facts or circumstances regarding material non-public information giving rise to an Allowed Delay), and (b) advise the Purchasers in writing to cease all sales under the Registration Statement until the end of the Allowed Delay.

(d) Underwritten Offering. If any offering pursuant to a Registration Statement pursuant to Section 2(a) hereof involves an underwritten offering, the Company shall have the right to select an investment banker and manager to administer the offering, which investment banker or manager shall be reasonably satisfactory to the Purchasers.

3. Company Obligations. The Company will use commercially reasonable efforts to effect the registration of the Registrable Securities in accordance with the terms hereof, and pursuant thereto the Company will, as expeditiously as possible:

(a) use commercially reasonable efforts to cause such Registration Statement to become effective and to remain continuously effective for a period that will terminate upon the earlier of (i) the date on which all Registrable Securities covered by such Registration Statement as amended from time to time, have been sold, and (ii) the date on which all Registrable Securities covered by such Registration Statement may be sold without the requirement to be in compliance with Rule 144(c)(1) and otherwise without restriction or limitation pursuant to Rule 144;

(b) prepare and file with the SEC such amendments and post-effective amendments to the Registration Statement and the Prospectus as may be necessary to keep the Registration Statement effective for the period specified in Section 3(a) and to comply with the provisions of the 1933 Act and the 1934 Act with respect to the distribution of all of the Registrable Securities covered thereby;

(c) provide copies to and permit counsel designated by the Purchasers to review each Registration Statement and all amendments and supplements thereto no fewer than five (5) days prior to their filing with the SEC and not file any document to which such counsel reasonably objects;

(d) furnish to the Purchasers and their legal counsel (i) promptly after the same is prepared and publicly distributed, filed with the SEC, or received by the Company (but not later than two (2) Business Days after the filing date, receipt date or sending date, as the case may be), one (1) copy of any Registration Statement and any amendment thereto, each preliminary prospectus and Prospectus and each amendment or supplement thereto, and each letter written by or on behalf of the Company to the SEC or the staff of the SEC, and each item of correspondence from the SEC or the staff of the SEC, in each case relating to such Registration Statement (other than any portion of any thereof which contains information for which the Company has sought confidential treatment), and (ii) such number of copies of a Prospectus, including a preliminary prospectus, and all amendments and supplements thereto and such other documents as each Purchaser may reasonably request in order to facilitate the disposition of the Registrable Securities owned by such Purchaser that are covered by the related Registration Statement;

(e) in the event the Company selects an underwriter for the offering, the Company shall enter into and perform its reasonable obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the underwriter of such offering;

(f) if required by the underwriter, or if any Purchaser is described in the Registration Statement as an underwriter, the Company shall furnish, on the effective date of the Registration Statement (except with respect to clause (i) below) and on the date that Registrable Securities are delivered to an underwriter, if any, for sale in connection with the Registration Statement (including any Purchaser deemed to be an underwriter), (i) (A) in the case of an underwritten offering, an opinion, dated as of the closing date of the sale of Registrable Securities to the underwriters, from independent legal counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in an underwritten public offering, addressed to the underwriters and the Purchasers participating in such underwritten offering or (B) in the case of an "at the market" offering, an opinion, dated as of or promptly after the effective date of the Registration Statement to the Purchasers, from independent legal counsel representing the Company for purposes of such Registration Statement, in form, scope and substance as is customarily given in a public offering, addressed to the Purchasers, and (ii) a letter, dated as of the effective date of such Registration Statement and confirmed as of the applicable dates described above, from the Company's independent certified public accountants in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters (including any Purchaser deemed to be an underwriter);

(g) use commercially reasonable efforts to (i) prevent the issuance of any stop order or other suspension of effectiveness and (ii) if such order is issued, obtain the withdrawal of any such order at the earliest possible moment;

(h) prior to any public offering of Registrable Securities, use commercially reasonable efforts to register or qualify or cooperate with the Purchasers and their counsel in connection with the registration or qualification of such Registrable Securities for offer and sale under the securities or blue sky laws of such jurisdictions requested by the Purchasers and do any and all other commercially reasonable acts or things necessary or advisable to enable the distribution in such jurisdictions of the Registrable Securities covered by the Registration Statement;

(i) use commercially reasonable efforts to cause all Registrable Securities covered by a Registration Statement to be listed on each securities exchange, interdealer quotation system or other market on which similar securities issued by the Company are then listed;

(j) immediately notify the Purchasers, at any time when a Prospectus relating to Registrable Securities is required to be delivered under the 1933 Act, upon discovery that, or upon the happening of any event as a result of which, the Prospectus included in a Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and at the request of any such holder, promptly prepare and furnish to such holder a reasonable number of copies of a supplement to or an amendment of such Prospectus as may be necessary so that, as thereafter delivered to the purchasers of such Registrable Securities, such Prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing; and

(k) cooperate with the Purchasers to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold pursuant to a Registration Statement, which certificates, to the extent permitted by applicable federal and state securities laws, shall be free of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names of the Holder in connection with any sale of Registrable Securities.

4. Obligations of the Purchasers.

(a) Each Purchaser shall promptly furnish in writing to the Company such information regarding itself, the Registrable Securities held by it and the intended method of disposition of the Registrable Securities held by it, as shall be reasonably required to effect the registration of such Registrable Securities and shall execute such documents in connection with such registration as the Company may reasonably request. At least five (5) Business Days prior to the first anticipated filing date of any Registration Statement, the Company shall notify each Purchaser of the information the Company requires from such Purchaser if such Purchaser elects to have any of the Registrable Securities included in the Registration Statement. A Purchaser shall provide such information to the Company at least two (2) Business Days prior to the first anticipated filing date of such Registration Statement if such Purchaser elects to have any of the Registrable Securities included in the Registration Statement.

(b) Each Purchaser agrees to cooperate with the Company as reasonably requested by the Company in connection with the preparation and filing of a Registration Statement hereunder, unless such Purchaser has notified the Company in writing of its election to exclude all of its Registrable Securities from such Registration Statement.

(c) In the event the Company, at the request of the Required Majority, determines to engage the services of an underwriter, each Purchaser agrees to enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the managing underwriter of such offering and take such other actions as are reasonably required in order to expedite or facilitate the dispositions of the Registrable Securities.

(d) Each Purchaser agrees that, upon receipt of any notice from the Company of either (i) the commencement of an Allowed Delay pursuant to Section 2(c)(ii) or (ii) the happening of an event pursuant to Section 3(j) hereof, such Purchaser will immediately discontinue disposition of Registrable Securities pursuant to the Registration Statement covering such Registrable Securities, until the Purchaser's receipt of the copies of the supplemented or amended prospectus filed with the SEC and declared effective and, if so directed by the Company, the Purchaser shall deliver to the Company (at the expense of the Company) or destroy (and deliver to the Company a certificate of destruction) all copies in the Purchaser's possession of the Prospectus covering the Registrable Securities current at the time of receipt of such notice.

(e) No Purchaser may participate in any third party underwritten registration hereunder unless it (i) agrees to sell the Registrable Securities on the basis provided in any underwriting arrangements in usual and customary form entered into by the Company, (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents reasonably required under the terms of such underwriting arrangements, and (iii) agrees to pay its pro rata share of all underwriting discounts and commissions. Notwithstanding the foregoing, no Purchaser shall be required to make any representations to such underwriter, other than those with respect to itself and the Registrable Securities owned by it, including its right to sell the Registrable Securities, and any indemnification in favor of the underwriter by the Purchasers shall be several and not joint and limited in the case of any Purchaser, to the proceeds received by such Purchaser from the sale of its Registrable Securities. The scope of any such indemnification in favor of an underwriter shall be limited to the same extent as the indemnity provided in Section 6(b) hereof.

5. Indemnification.

(a) Indemnification by the Company. The Company will indemnify and hold harmless each Purchaser and its officers, directors, members, employees and agents, successors and assigns, and each other person, if any, who controls such Purchaser within the meaning of the 1933 Act, against any losses, claims, damages or liabilities, joint or several, to which such seller, officer, director, member, or controlling person may become subject under the 1933 Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon: (i) any untrue statement or alleged untrue statement of any material fact contained in any Registration Statement, any preliminary prospectus or final prospectus contained therein, or any amendment or supplement thereof; (ii) any blue sky application or other document executed by the Company specifically for that purpose or based upon written information furnished by the Company filed in any state or other jurisdiction in order to qualify any or all of the Registrable Securities under the securities laws thereof; (iii) the omission or alleged omission to state in any preliminary prospectus or final prospectus contained in and Registration Statement, or any supplement thereof a material fact required to be stated therein or necessary to make the statements therein not misleading; (iv) any violation by the Company or its agents of any rule or regulation promulgated under the 1933 Act applicable to the Company or its agents and relating to action or inaction required of the Company in connection with such registration; or (v) any failure to register or qualify the Registrable Securities included in any such Registration in any state where the Company or its agents has affirmatively undertaken or agreed in writing that the Company will undertake such registration or qualification on an Purchaser's behalf (the undertaking of any underwriter chosen by the Company being attributed to the Company) and will reimburse such Purchaser, and each such officer, director or member and each such controlling person for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case if and to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission so made in conformity with information furnished by such Purchaser or any such controlling person in writing specifically for use in such Registration Statement or Prospectus.

(b) Indemnification by the Purchasers. In connection with any registration pursuant to the terms of this Agreement, each Purchaser will furnish to the Company in writing such information as the Company reasonably requests concerning the holders of Registrable Securities or the proposed manner of distribution for use in connection with any Registration Statement or Prospectus and agrees, severally but not jointly, to indemnify and hold harmless, to the fullest extent permitted by law, the Company, its directors, officers, employees, stockholders and each person who controls the Company (within the meaning of the 1933 Act) against any losses, claims, damages, liabilities and expense (including reasonable attorney fees) resulting from any untrue statement of a material fact or any omission of a material fact required to be stated in the Registration Statement or Prospectus or preliminary prospectus or amendment or supplement thereto or necessary to make the statements therein not misleading, to the extent, but only to the extent that such untrue statement or omission is contained in any information furnished in writing by such Purchaser to the Company specifically for inclusion in such Registration Statement or Prospectus or amendment or supplement thereto. In no event shall the liability of a Purchaser be greater in amount than the dollar amount of the proceeds (net of all expense paid by such Purchaser and the amount of any damages such holder has otherwise been required to pay by reason of such untrue statement or omission) received by such Purchaser upon the sale of the Registrable Securities included in the Registration Statement giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. Any person entitled to indemnification hereunder shall (i) give prompt notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party; provided that any person entitled to indemnification hereunder shall have the right to employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such person unless (a) the indemnifying party has agreed to pay such fees or expenses, or (b) the indemnifying party shall have failed to assume the defense of such claim and employ counsel reasonably satisfactory to such person or (c) in the reasonable judgment of any such person, based upon written advice of its counsel, a conflict of interest exists between such person and the indemnifying party with respect to such claims (in which case, if the person notifies the indemnifying party in writing that such person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such claim on behalf of such person); and provided, further, that the failure of any indemnified party to give notice as provided herein shall not relieve the indemnifying party of its obligations hereunder, except to the extent that such failure to give notice shall materially adversely affect the indemnifying party in the defense of any such claim or litigation. It is understood that the indemnifying party shall not, in connection with any proceeding in the same jurisdiction, be liable for fees or expenses of more than one separate firm of attorneys at any time for all such indemnified parties. No indemnifying party will, except with the consent of the indemnified party, consent to entry of any judgment or enter into any settlement that does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation.

(d) Contribution. If for any reason the indemnification provided for in the preceding paragraphs (a) and (b) is unavailable to an indemnified party or insufficient to hold it harmless, other than as expressly specified therein, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnified party and the indemnifying party, as well as any other relevant equitable considerations. No person guilty of fraudulent misrepresentation within the meaning of Section 11(f) of the 1933 Act shall be entitled to contribution from any person not guilty of such fraudulent misrepresentation. In no event shall the contribution obligation of a holder of Registrable Securities be greater in amount than the dollar amount of the proceeds (net of all expenses paid by such holder and the amount of any damages such holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission) received by it upon the sale of the Registrable Securities giving rise to such contribution obligation.

(e) Survival. The obligations of the Company and Purchasers under this Section 6 shall survive the completion of any offering of Registrable Securities in a registration statement under Section 2 and otherwise.

7. Miscellaneous.

(a) Amendments and Waivers. This Agreement may be amended only by a writing signed by the Company and the Required Majority. The Company may take any action herein prohibited, or omit to perform any act herein required to be performed by it, only if the Company shall have obtained the written consent to such amendment, action or omission to act, by the Required Majority.

(b) Notices. All notices and other communications provided for or permitted hereunder shall be made as set forth in Section 10(a) of the Notes.

(c) Assignments and Transfers by Purchasers. The provisions of this Agreement shall be binding upon and inure to the benefit of the Purchasers and their respective successors and assigns. A Purchaser may transfer or assign, in whole or from time to time in part, to one or more persons its rights hereunder in connection with the transfer of Registrable Securities by such Purchaser to such person, provided that such Purchaser complies with all laws applicable thereto and provides written notice of assignment to the Company promptly after such assignment is effected.

(d) Assignments and Transfers by the Company. This Agreement may not be assigned by the Company (whether by operation of law or otherwise) without the prior written consent of the Required Majority, provided, however, that the Company may assign its rights and delegate its duties hereunder to any surviving or successor corporation in connection with a merger or consolidation of the Company with another corporation.

(e) Benefits of the Agreement. The terms and conditions of this Agreement shall inure to the benefit of and be binding upon the respective permitted successors and assigns of the parties. Nothing in this Agreement, express or implied, is intended to confer upon any party other than the parties hereto or their respective successors and assigns any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided in this Agreement.

(f) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. This Agreement may also be executed via facsimile or email (scanned PDF), which shall be deemed an original.

(g) Titles and Subtitles. The titles and subtitles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

(h) Severability. Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof but shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by applicable law, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. To the extent permitted by applicable law, the parties hereby waive any provision of law which renders any provisions hereof prohibited or unenforceable in any respect.

(i) Further Assurances. The parties shall execute and deliver all such further instruments and documents and take all such other actions as may reasonably be required to carry out the transactions contemplated hereby and to evidence the fulfillment of the agreements herein contained.

(j) Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement and intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

(k) Governing Law; Consent to Jurisdiction. All questions concerning the construction, validity, enforcement and interpretation of this Agreement 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 this Agreement (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 this Agreement), 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 Agreement or the transactions contemplated hereby.

(l) Reports Under Securities Exchange Act. With a view to making available the benefits of certain rules and regulations of the SEC, including Rule 144, that may at any time permit the Purchaser to sell securities of the Company to the public without registration or pursuant to a registration on Form S-1 or Form S-3, the Company agrees (i) to make and keep public information available, as those terms are understood and defined in Rule 144, at all times after the Closing Date; and (ii) file with the SEC in a timely manner all reports and other documents required of the Company under the 1933 Act and the 1934 Act.

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IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement or caused their duly authorized officers or representatives to execute this Agreement as of the date first above written.

THE COMPANY:

AYALA PHARMACEUTICALS, INC.

By: */s/ Kenneth A. Berlin*

Name: Kenneth A. Berlin

Title: President and Chief Executive Officer

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement or caused their duly authorized officers or representatives to execute this Agreement as of the date first above written.

THE PURCHASERS:

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

ISRAEL BIOTECH FUND II, L.P.

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

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

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement or caused their duly authorized officers or representatives to execute this Agreement as of the date first above written.

THE PURCHASERS:

ARKIN BIO VENTURES L.P.
By its General Partner:
Arkin Bio Ventures Partners Ltd.

By: */s/ Moshe Arkin*
Name: Moshe Arkin
Title: Director

ARKIN COMMUNICATION LTD.

By: */s/ Moshe Arkin*
Name: Moshe Arkin
Title: Director

IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement or caused their duly authorized officers or representatives to execute this Agreement as of the date first above written.

THE PURCHASERS:

BIOTEL LIMITED

By: */s/ Rodney Hodges*
Name: Rodney Hodges
Title: duly authorized by Champel Directors Limited to sign on its behalf as corporate director of Biotel Limited

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 September 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.

November 20, 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, Roy Golan, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the fiscal quarter ended September 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.

November 20, 2023

By: */s/ Roy Golan*
Roy Golan
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 September 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: November 20, 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 September 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: November 20, 2023

By: */s/ Roy Golan*
Roy Golan
Chief Financial Officer