UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

for the quarterly period ended June 30, 2022

OR

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

COMMISSION FILE NUMBER: 001-37590

AVALO THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware	**45-0705648**
(State of incorporation)	(I.R.S. Employer Identification No.)
540 Gaither Road, Suite 400 **Rockville, Maryland 20850** (Address of principal executive offices)	**(410) 522-8707** (Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, $0.001 par value	AVTX	Nasdaq Capital Market

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 ☑

As of August 2, 2022, the registrant had 9,414,105 shares of common stock outstanding.

AVALO THERAPEUTICS, INC.

FORM 10-Q

For the Quarter Ended June 30, 2022

TABLE OF CONTENTS

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

AVALO THERAPEUTICS, INC. and SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share and per share data)

	June 30, 2022	December 31, 2021
Assets		
Current assets:		
Cash and cash equivalents	$ 11,249	$ 54,585
Accounts receivable, net	544	1,060
Other receivables	1,306	3,739
Inventory, net	23	38
Prepaid expenses and other current assets	1,885	2,372
Restricted cash, current portion	14	51
Total current assets	15,021	61,845
Property and equipment, net	2,567	2,695
Other long-term asset	—	1,000
Intangible assets, net	—	38
Goodwill	14,409	14,409
Restricted cash, net of current portion	227	227
Total assets	$ 32,224	$ 80,214
Liabilities and stockholders' (deficit) equity		
Current liabilities:		
Accounts payable	$ 2,164	$ 3,369
Accrued expenses and other current liabilities	13,231	16,519
Total current liabilities	15,395	19,888
Notes payable, non-current	18,713	32,833
Royalty obligation	2,000	2,000
Deferred tax liability, net	128	113
Other long-term liabilities	1,939	2,298
Total liabilities	38,175	57,132
Stockholders' (deficit) equity:		
Common stock—$0.001 par value; 200,000,000 shares authorized at June 30, 2022 and December 31, 2021;9,405,724 and 9,399,517 shares issued and outstanding at June 30, 2022 and December 31, 2021, respectively[1]	9	9
Additional paid-in capital[1]	291,244	285,239
Accumulated deficit	(297,204)	(262,166)
Total stockholders' (deficit) equity	(5,951)	23,082
Total liabilities and stockholders' (deficit) equity	$ 32,224	$ 80,214

[1] *Results have been retroactively adjusted to reflect the 1-for-12 reverse stock split effected on July 7, 2022 See Note 1 for details.*

See accompanying notes to the unaudited condensed consolidated financial statements.

AVALO THERAPEUTICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Operations and Comprehensive Loss (Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Revenues:				
Product revenue, net	$ 1,033	$ 2,730	$ 2,206	$ 3,204
License revenue	—	625	—	625
Total revenues, net	1,033	3,355	2,206	3,829
Operating expenses:				
Cost of product sales	1,567	83	2,286	159
Research and development	8,510	12,569	18,094	37,774
Selling, general and administrative	2,784	7,404	14,468	12,751
Amortization expense	—	428	38	853
Total operating expenses	12,861	20,484	34,886	51,537
	(11,828)	(17,129)	(32,680)	(47,708)
Other expense:				
Other expense, net	—	(5)	(20)	(5)
Interest expense, net	(1,154)	(239)	(2,323)	(222)
Total other expense, net from continuing operations	(1,154)	(244)	(2,343)	(227)
Loss from continuing operations before taxes	(12,982)	(17,373)	(35,023)	(47,935)
Income tax expense (benefit)	5	(199)	15	(188)
Loss from continuing operations	$ (12,987)	$ (17,174)	$ (35,038)	$ (47,747)
Income (loss) from discontinued operations	—	69	—	(38)
Net loss	$ (12,987)	$ (17,105)	$ (35,038)	$ (47,785)
Net loss per share of common stock, basic and diluted[1]:				
Continuing operations	$ (1.38)	$ (2.12)	$ (3.73)	$ (5.97)
Discontinued operations	0.00	0.01	0.00	0.00
Net loss per share of common stock, basic and diluted	$ (1.38)	$ (2.11)	$ (3.73)	$ (5.97)
Net loss per share of preferred stock, basic and diluted[1]:				
Continuing operations		$ (0.88)		$ (2.49)
Discontinued operations		0.00		0.00
Net loss per share of preferred stock, basic and diluted		$ (0.88)		$ (2.49)

[1] *Results have been retroactively adjusted to reflect the 1-for-12 reverse stock split effected on July 7, 2022.See Note 1 for details.*

See accompanying notes to the unaudited condensed consolidated financial statements.

AVALO THERAPEUTICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Changes in Stockholders' (Deficit) Equity (Unaudited)
(In thousands, except share amounts)

	Common stock		Additional paid-in	Accumulated	Total stockholders'
	Shares[1]	Amount[1]	capital[1]	deficit	deficit
Three Months Ended June 30, 2022					
Balance, March 31, 2022	9,399,517	$ 9	$ 290,550	$ (284,217)	$ 6,342
Restricted stock units vested during period	938	—	—	—	$ —
Shares purchased through employee stock purchase plan	5,269	—	25	—	$ 25
Stock-based compensation	—	—	669	—	669
Net loss	—	—	—	(12,987)	(12,987)
Balance, June 30, 2022	9,405,724	$ 9	$ 291,244	$ (297,204)	$ (5,951)

	Common stock		Additional paid-in	Accumulated	Total stockholders'
	Shares[1]	Amount[1]	capital[1]	deficit	deficit
Six Months Ended June 30, 2022					
Balance, December 31, 2021	9,399,517	$ 9	$ 285,239	$ (262,166)	$ 23,082
Restricted stock units vested during period	938	—	—	—	$ —
Shares purchased through employee stock purchase plan	5,269	—	25	—	$ 25
Stock-based compensation	—	—	5,980	—	5,980
Net loss	—	—	—	(35,038)	(35,038)
Balance, June 30, 2022	9,405,724	$ 9	$ 291,244	$ (297,204)	$ (5,951)

	Common stock		Preferred Stock		Additional paid-in	Accumulated	Total stockholders'
	Shares[1]	Amount[1]	Shares	Amount	capital[1]	deficit	equity
Three Months Ended June 30, 2021							
Balance, March 31, 2021	7,425,401	$ 7	1,257,143	$ 1	$ 241,617	$ (208,470)	$ 33,155
Conversion of preferred stock to common stock	523,810	1	(1,257,143)	(1)	—	—	—
Restricted stock units vested during period	6,493	—	—	—	—	—	—
Shares purchased through employee stock purchase plan	7,391	—	—	—	207	—	207
Issuance of equity classified warrants related to venture loan and security agreement	—	—	—	—	861	—	861
Exercise of stock options	37,651	—	—	—	1,396	—	1,396
Stock-based compensation	—	—	—	—	3,074	—	3,074
Net loss	—	—	—	—	—	(17,105)	(17,105)
Balance, June 30, 2021	8,000,746	$ 8	—	$ —	$ 247,155	$ (225,575)	$ 21,588

	Common stock		Preferred Stock		Additional paid-in	Accumulated	Total stockholders'
	Shares[1]	Amount[1]	Shares	Amount	capital[1]	deficit	equity
Six Months Ended June 30, 2021							
Balance, December 31, 2020	6,250,344	$ 6	1,257,143	$ 1	$ 202,345	$ (177,790)	$ 24,562
Issuance of shares of common stock and pre-funded warrants in underwritten public offering, net	1,164,323	1	—	—	37,652	—	37,653
Conversion of preferred stock to common stock	523,810	1	(1,257,143)	(1)	—	—	—
Restricted stock units vested during period	6,493	—	—	—	—	—	—
Shares purchased through employee stock purchase plan	7,391	—	—	—	207	—	207
Issuance of equity classified warrants related to venture loan and security agreement	—	—	—	—	861	—	861
Exercise of stock options and warrants	48,385	—	—	—	1,568	—	1,568
Stock-based compensation	—	—	—	—	4,522	—	4,522
Net loss	—	—	—	—	—	(47,785)	(47,785)
Balance, June 30, 2021	8,000,746	$ 8	—	$ —	$ 247,155	$ (225,575)	$ 21,588

[1] *Results have been retroactively adjusted to reflect the 1-for-12 reverse stock split effected on July 7, 2022.See Note 1 for details.*

See accompanying notes to the unaudited condensed consolidated financial statements.

AVALO THERAPEUTICS, INC. and SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)
(Amounts in thousands)

	Six Months Ended June 30,	
	2022	**2021**
Operating activities		
Net loss	$ (35,038)	$ (47,785)
Adjustments to reconcile net loss used in operating activities:		
Depreciation and amortization	97	907
Stock-based compensation	5,980	4,522
Accretion of debt discount	686	104
Allowance for other long-term asset	1,000	—
Deferred taxes	15	31
Changes in assets and liabilities:		
Accounts receivable, net	516	(1,943)
Other receivables	2,433	1,210
Inventory, net	15	(17)
Prepaid expenses and other assets	487	910
Accounts payable	(1,205)	(324)
Accrued expenses and other liabilities	(3,537)	4,916
Lease liability, net	14	(34)
Net cash used in operating activities	(28,537)	(37,503)
Investing activities		
Purchase of property and equipment	(56)	(21)
Net cash used in investing activities	(56)	(21)
Financing activities		
Proceeds from issuance of common stock and pre-funded warrants in underwritten public offering, net	—	37,653
Proceeds from Notes and warrants, net of debt issuance costs paid	—	19,615
Prepayment on Notes	(14,806)	—
Proceeds from exercise of stock options	—	1,568
Proceeds from issuance of common stock under employee stock purchase plan	25	207
Net cash (used in) provided by financing activities	(14,781)	59,043
(Decrease) increase in cash, cash equivalents and restricted cash	(43,374)	21,519
Cash, cash equivalents, and restricted cash at beginning of period	54,864	19,106
Cash, cash equivalents, and restricted cash at end of period	$ 11,490	$ 40,625
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 1,657	$ —
Unpaid debt issuance costs	$ —	$ 1,715

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the condensed consolidated balance sheets that sum to the total of the same such amounts shown in the condensed consolidated statements of cash flows (in thousands):

	June 30,	
	2022	**2021**
Cash and cash equivalents	$ 11,249	$ 40,435
Restricted cash, current	14	41
Restricted cash, non-current	227	149
Total cash, cash equivalents and restricted cash	$ 11,490	40,625

See accompanying notes to the unaudited condensed consolidated financial statements.

AVALO THERAPEUTICS, INC. and SUBSIDIARIES

Notes to Unaudited Condensed Consolidated Financial Statements

1. Business

Avalo Therapeutics, Inc. (the "Company" or "Avalo" or "we") is a leading clinical-stage precision medicine company that discovers, develops, and commercializes targeted therapeutics for patients with significant unmet clinical need in immunology and rare genetic diseases. The Company has built a diverse portfolio of innovative therapies to deliver meaningful medical impact for patients in urgent need. Avalo's clinical candidates commonly have a proven mechanistic rationale, biomarkers and/or an established proof-of-concept to expedite and increase the probability of success.

Avalo was incorporated in Delaware and commenced operation in 2011, and completed its initial public offering in October 2015.

On July 7, 2022, Avalo effected a 1-for-12 reverse stock split. The Company has retroactively applied the reverse stock split made effective on July 7, 2022 to share and per share amounts in the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2022 and 2021 and the year ended December 31, 2021. Additionally, pursuant to their terms, a proportionate adjustment was made to the per share exercise price and number of shares issuable under all of the Company's outstanding options and warrants, and the number of shares authorized for issuance pursuant to the Company's equity incentive plans have been reduced proportionately. Avalo retroactively applied such adjustments in the notes to the unaudited condensed consolidated financial statements for the three and six months ended June 30, 2022 and 2021 and the year ended December 31, 2021. The reverse stock split did not reduce the number of authorized shares of common and preferred stock and did not alter the par value.

Liquidity

In order to meet its cash flow needs, the Company applies a disciplined decision-making methodology as it evaluates the optimal allocation of the Company's resources between investing in the Company's existing pipeline assets and acquisitions or in-licensing of new assets. As of June 30, 2022, Avalo had $ 11.2 million in cash and cash equivalents. Subsequent to June 30, 2022, in August 2022, Avalo received the approximate $ 15 million of upfront payment from its transfer of AVTX-007 on July 29, 2022. Refer to Note 14 for further information. For the six months ended June 30, 2022, Avalo generated a net loss of $ 35.0 million and negative cash flows from operations of $28.5 million. As of June 30, 2022, Avalo had an accumulated deficit of $297.2 million.

In June 2022, as collectively agreed upon with the Lenders, the Company made a partial prepayment of $15.0 million ($14.8 million of which was applied to principal) under its venture loan and security agreement (the "Loan Agreement") with Horizon Technology Finance Corporation ("Horizon") and Powerscourt Investments XXV, LP ("Powerscourt", and together with Horizon, the "Lenders"). Avalo intends to consider additional prepayments prior to principal loan amounts coming due, if collectively agreed upon with the Lenders. As of June 30, 2022, the carrying value of the Notes (as defined in Note 9) was $18.7 million.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern; however, losses are expected to continue as the Company continues to invest in its research and development pipeline assets. The Company will require additional financing to fund its operations and to continue to execute its business strategy within one year after the date the unaudited condensed consolidated financial statements included herein were issued. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

To mitigate these conditions and to meet the Company's capital requirements, management plans to use its current cash on hand along with some combination of the following: (i) dilutive and/or non-dilutive financings, (ii) other out-licensing or strategic alliances/collaborations of its current pipeline assets, (iii) out-licensing or sale of its non-core assets, and (iv) federal and/or private grants. If the Company raises additional funds through collaborations, strategic alliances or licensing arrangements with third parties, the Company might have to relinquish valuable rights to its technologies, future revenue streams, research programs or product candidates. Subject to limited exceptions, the Loan Agreement prohibits the Company from incurring certain additional indebtedness, making certain asset dispositions, and entering into certain mergers, acquisitions or other business combination transactions without the prior consent of the Lenders. Additionally, the Loan Agreement contains certain covenants and certain other specified events that could result in an event of default, which if not cured or waived, could result in the immediate acceleration of all or a substantial portion of the outstanding notes. As of the filing date of this Quarterly Report on Form 10-Q, the Company was not aware of any breach of covenants or occurrence of material adverse change, nor had it received any notice of event of default from the Lenders (refer to Note 9 of the condensed consolidated financial statements for more information).

If the Company requires but is unable to obtain additional funding, the Company may be forced to make reductions in spending, delay, suspend, reduce or eliminate some or all of its planned research and development programs, or liquidate assets where possible. Due to

the uncertainty regarding future financing and other potential options to raise additional funds, management has concluded that substantial doubt exists with respect to the Company's ability to continue as a going concern within one year after the date that the financial statements in this Quarterly Report on Form 10-Q were issued.

Over the long term, the Company's ultimate ability to achieve and maintain profitability will depend on, among other things, the development, regulatory approval, and commercialization of its pipeline assets, and the potential receipt and sale of any priority review vouchers it receives.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation

The Company's unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). Any reference in these notes to applicable guidance is meant to refer to the authoritative GAAP as found in the Accounting Standards Codification ("ASC") and Accounting Standards Updates ("ASU") of the Financial Accounting Standards Board ("FASB").

In the opinion of management, the accompanying unaudited condensed consolidated financial statements include all adjustments, consisting of normal recurring adjustments, which are necessary to present fairly the Company's financial position, results of operations, and cash flows. The condensed consolidated balance sheet at December 31, 2021 has been derived from audited financial statements at that date. The interim results of operations are not necessarily indicative of the results that may occur for the full fiscal year. Certain information and footnote disclosure normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to instructions, rules, and regulations prescribed by the United States Securities and Exchange Commission ("SEC").

The Company believes that the disclosures provided herein are adequate to make the information presented not misleading when these unaudited condensed consolidated financial statements are read in conjunction with the December 31, 2021 audited consolidated financial statements.

In the second quarter of 2022, the Company concluded that it would include sales and marketing expenses within the selling, general and administrative line in the Company's condensed consolidated statement of operations. The Company reclassified $0.8 million and $1.2 million from sales and marketing expense to selling, general and administrative expense for the three and six months ended June 30, 2021, respectively, to conform with the current period presentation.

Unless otherwise indicated, all amounts in the following tables are in thousands except share and per share amounts.

Significant Accounting Policies

During the six months ended June 30, 2022, there were no significant changes to the Company's summary of significant accounting policies contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the SEC on March 2, 2022.

3. Revenue

The Company generates substantially all of its revenue from sales of Millipred®, an oral prednisolone indicated across a wide variety of inflammatory conditions, which is considered a prescription drug. The Company sells its prescription drug in the United States primarily through wholesale distributors. Wholesale distributors account for substantially all of the Company's net product revenues and trade receivables. For the three months ended June 30, 2022, the Company's two largest customers accounted for approximately 86% and 14%, respectively, of the Company's total net product revenues. For the six months ended June 30, 2022, the Company's two largest customers accounted for approximately 79% and 21%, respectively, of the Company's total net product revenues. Net revenue from sales of prescription drugs was $1.0 million and $2.7 million for the three months ended June 30, 2022 and 2021, respectively, and $2.2 million and $3.2 million for the six months ended June 30, 2022 and 2021, respectively.

The Company has a license and supply agreement for the Millipred® product with a wholly owned subsidiary of Teva Pharmaceutical Industries Ltd. ("Teva"), which expires on September 30, 2023. Beginning July 1, 2021, Avalo is required to pay Teva fifty percent of the net profit of the Millipred® product following each calendar quarter, subject to a $0.5 million quarterly minimum payment. For the three and six months ended June 30, 2022, the Company recognized $0.4 million and $1.0 million, respectively, in cost of product

sales related to the royalty. Dr. Sol Barer served as the Chairman of the Company's board of directors until June 2021 and currently serves as the Chairman of Teva's board of directors.

Aytu BioScience, Inc. ("Aytu"), to which the Company sold its rights, title, and interests in assets relating to certain commercialized products in 2019 (the "Aytu Transaction"), managed Millipred® commercial operations until August 31, 2021 pursuant to transition service agreements, which included managing the third-party logistics provider and providing accounting reporting services. Aytu collected cash on behalf of Avalo for revenue generated by sales of Millipred ® from the second quarter of 2020 through the third quarter of 2021 and is obligated to transfer cash generated by such sales to Avalo. In the third quarter of 2021, Avalo finalized its trade and distribution channel to allow it to control the third-party distribution and began managing Millipred® commercial operations at that time. The current transition services agreement allows Aytu to withhold cash of $2.0 million until September 30, 2022 and $1.0 million until December 2024. The Company received $2.2 million from Aytu in first quarter of 2022. As of June 30, 2022, the total receivable balance was approximately $1.9 million. As most recently public disclosed in their Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, Aytu concluded that substantial doubt exists with respect to their ability to continue as a going concern within one year after the date that the financial statements were issued, or May 2023. As such, the Company fully reserved for the $1.0 million due in December 2024 and recognized the related expense in cost of product sales for the three and six months ended June 30, 2022. The remaining $0.9 million is included within other receivables and is contractually owed in the fourth quarter of 2022.

4. Net Loss Per Share

The Company computes earnings per share ("EPS") using the two-class method. The two-class method of computing EPS is an earnings allocation formula that determines EPS for common stock and any participating securities according to dividends declared and participation rights in undistributed earnings.

The Company had only common stock outstanding during the three and six months ended June 30, 2022. The Company had two classes of stock outstanding during the three and six months ended June 30, 2021; common stock and preferred stock. The preferred stock outstanding during the prior period converted to shares of common stock on an approximately 1-for-0.42 ratio (ratio adjusted for the reverse stock split) and had the same rights, preferences and privileges as the Company's common stock other than it held no voting rights. In April 2021, Armistice Capital, LLC, ("Armistice"), which is a significant stockholder of the Company and whose chief investment officer, Steven Boyd, and managing director, Keith Maher, serve on the Board of the Company, converted the then outstanding 1,257,143 shares of convertible preferred stock into 523,810 shares of Avalo's common stock (refer to Note 10 for more information). Under the two-class method, the convertible preferred stock was considered a separate class of stock until the time it was converted to common shares for EPS purposes. Therefore, basic and diluted EPS is provided below for common stock for the three and six months ended June 30, 2022, and both common stock and preferred stock for the three and six months ended June 30, 2021.

EPS for common stock and EPS for preferred stock is computed by dividing the sum of distributed earnings and undistributed earnings for each class of stock by the weighted average number of shares outstanding for each class of stock for the period. In applying the two-class method, undistributed earnings are allocated to common stock and preferred stock based on the weighted average shares outstanding during the period, which assumed the convertible preferred stock had been converted to common stock. The weighted average number of common shares outstanding as of June 30, 2022 and 2021 include the weighted average effect of the pre-funded warrants issued in connection with the underwritten public offering that closed in January 2021, the exercise of which requires nominal consideration for the delivery of the shares of common stock (refer to Note 10 for more information).

Diluted net loss per share includes the potential dilutive effect of common stock equivalents as if such securities were converted or exercised during the period, when the effect is dilutive. Common stock equivalents include: (i) outstanding stock options and restricted stock units, which are included under the "treasury stock method" when dilutive; and (ii) common stock to be issued upon the exercise of outstanding warrants, which are included under the "treasury stock method" when dilutive. Because the impact of these items is generally anti-dilutive during periods of net loss, there is no difference between basic and diluted loss per common share for periods with net losses. In periods of net loss, losses are allocated to the participating security only if the security has not only the right to participate in earnings, but also a contractual obligation to share in the Company's losses.

The following tables set forth the computation of basic and diluted net loss per share of common stock for the three and six months ended June 30, 2022, and common stock and preferred stock for the three and six months ended June 30, 2021 (in thousands, except share and per share amounts):

	Three Months Ended June 30, 2022
	Common stock
Numerator:	
Allocation of undistributed net loss	$ (12,987)
Denominator:	
Weighted average shares	9,400,902
Basic and diluted net loss per share	$ (1.38)

	Six Months Ended June 30, 2022
	Common stock
Numerator:	
Allocation of undistributed net loss	$ (35,038)
Denominator:	
Weighted average shares	9,400,214
Basic and diluted net loss per share	$ (3.73)

	Three Months Ended June 30, 2021			
	Common stock		Preferred stock	
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations
Numerator:				
Allocation of undistributed net loss	$ (16,991)	$ 68	$ (183)	$ 1
Denominator:				
Weighted average shares	8,014,966	8,014,966	207,221	207,221
Basic and diluted net loss per share	$ (2.12)	$ 0.01	$ (0.88)	$ 0.00

	Six Months Ended June 30, 2021			
	Common stock		Preferred stock	
	Continuing Operations	Discontinued Operations	Continuing Operations	Discontinued Operations
Numerator:				
Allocation of undistributed net loss	$ (45,934)	$ (37)	$ (1,813)	$ (1)
Denominator:				
Weighted average shares	7,699,923	7,699,923	729,282	729,282
Basic and diluted net loss per share	$ (5.97)	$ 0.00	$ (2.49)	$ 0.00

The following outstanding securities have been excluded from the computation of diluted weighted shares outstanding for the three and six months ended June 30, 2022 and 2021, as they could have been anti-dilutive:

	Three and Six Months Ended June 30,	
	2022	2021
Stock options	1,379,570	1,053,785
Warrants on common stock[1]	366,990	367,186
Restricted Stock Units	—	6,493

[1] *The weighted average number of common shares outstanding as of June 30, 2021 includes the weighted average effect of the139,747 pre-funded warrants issued in connection with the underwritten public offering that closed in January 2021 because the exercise of such warrants requires only nominal consideration ($0.012 per share exercise price for each pre-funded warrant). During 2021, the holder exercised 25,740 of the pre-funded warrants. As of June 30, 2022, the weighted average number of common shares outstanding includes the weighted average effect of the remaining 114,007 pre-funded warrants outstanding. These pre-funded warrants are not included in the table above.*

5. Fair Value Measurements

ASC No. 820, *Fair Value Measurements and Disclosures* ("ASC 820"), defines fair value as the price that would be received to sell an asset, or paid to transfer a liability, in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. The fair value standard also establishes a three-level hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1—inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2—inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3—inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

The following table presents, for each of the fair value hierarchy levels required under ASC 820, the Company's assets and liabilities that are measured at fair value on a recurring basis (in thousands):

	June 30, 2022 Fair Value Measurements Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets			
Investments in money market funds*	$ 10,508	$ —	$ —

	December 31, 2021 Fair Value Measurements Using		
	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets			
Investments in money market funds*	$ 54,010	$ —	$ —

**Investments in money market funds are reflected in cash and cash equivalents on the accompanying condensed consolidated balance sheets.*

As of June 30, 2022 and December 31, 2021, the Company's financial instruments included cash and cash equivalents, restricted cash, accounts receivable, other receivables, prepaid and other current assets, accounts payable, accrued expenses and other current liabilities, and long-term debt. The carrying amounts reported in the accompanying condensed consolidated financial statements for cash and cash equivalents, restricted cash, accounts receivable, other receivables, prepaid and other current assets, accounts payable, and accrued expenses and other current liabilities approximate their respective fair values because of the short-term nature of these accounts. The estimated fair value of the Company's debt approximates its carrying value as of June 30, 2022 and is in Level Two of the fair value hierarchy (refer to Note 9 for more information).

No changes in valuation techniques or inputs occurred during the six months ended June 30, 2022 and 2021. No transfers of assets between Level 1 and Level 2 of the fair value measurement hierarchy occurred during the six months ended June 30, 2022 and 2021.

6. Leases

The Company currently occupies two leased properties, both of which serve as administrative office space. The Company determined that both of these leases are operating leases based on the lease classification test performed at lease commencement.

The annual base rent for the Company's office located in Rockville, Maryland is $0.2 million, subject to annual 2.5% increases over the term of the lease. The applicable lease provided for a rent abatement for a period of 12 months following the Company's date of occupancy. The lease has an initial term of 10 years from the date the Company made its first annual fixed rent payment, which occurred in January 2020. The Company has the option to extend the lease two times, each for a period of five years, and may terminate the lease as of the sixth anniversary of the first annual fixed rent payment, upon the payment of a termination fee.

The initial annual base rent for the Company's office located in Chesterbrook, Pennsylvania is $0.2 million and the annual operating expenses are approximately $0.1 million. The annual base rent is subject to periodic increases of approximately 2.4% over the term of the lease. The lease provided for a rent abatement period of three months following lease commencement. The lease has an initial term of 5.25 years from the lease commencement on December 1, 2021.

The weighted average remaining term of the operating leases at June 30, 2022 was 6.0 years.

Supplemental balance sheet information related to the leased properties include (in thousands):

	As of	
	June 30, 2022	December 31, 2021
Property and equipment, net	$ 1,877	$ 2,001
Accrued expenses and other current liabilities	$ 524	$ 485
Other long-term liabilities	1,869	2,018
Total operating lease liabilities	$ 2,393	$ 2,503

The operating lease ROU assets are included in property and equipment, net and the lease liabilities are included in accrued expenses and other current liabilities and other long-term liabilities in our condensed consolidated balance sheets. The Company utilized a weighted average discount rate of 9.2% to determine the present value of the lease payments.

The components of lease expense for the three and six months ended June 30, 2022 and 2021 were as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Operating lease cost*	$ 122	$ 95	$ 239	$ 190

**Includes short-term leases, which are immaterial.*

The following table shows a maturity analysis of the operating lease liabilities as of June 30, 2022 (in thousands):

	Undiscounted Cash Flows
July 1, 2022 through December 31, 2022	$ 261
2023	528
2024	537
2025	547
2026	557
2027	258
Thereafter	426
Total lease payments	$ 3,114
Less implied interest	(721)
Total	$ 2,393

7. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities as of June 30, 2022 and December 31, 2021 consisted of the following (in thousands):

	As of	
	June 30, 2022	December 31, 2021
Research and development	$ 6,183	$ 8,221
Compensation and benefits	3,327	4,310
Selling, general and administrative	1,142	1,386
Commercial operations	1,770	1,733
Royalty payment	282	375
Lease liability, current	524	485
Other	3	9
Total accrued expenses and other current liabilities	$ 13,231	$ 16,519

8. Cost Reduction Plan

In the first quarter of 2022, the Board approved a cost reduction plan to enable the Company to execute its strategy of prioritizing the development of its most promising programs (the "Plan"). As part of the Plan, the Company is winding down internal development efforts of AVTX-006 and paused development efforts of AVTX-802. Accordingly, a reduction in workforce plan was approved to reduce headcount and related expenses. The reduction in workforce plan, which was considered a one-time termination benefit, was completed in the second quarter of 2022.

The one-time termination benefits mainly relate to severance payments to separated employees. As a result, the Company recognized $1.5 million of expense during the first quarter of 2022, of which $0.7 million was recognized in research and development expense, and $0.8 million was recognized in selling, general and administrative expense.

Of the $1.5 million initial liability recognized in the first quarter of 2022, $0.8 million was paid in the six months ended June 30, 2022. The remaining severance liability will be paid over the next one to nine months as dictated in each separation agreement. Additionally, $0.4 million of stock-based compensation expense was recognized in the first quarter of 2022 related to the Plan, which was mainly related to accelerated vesting of certain separated employees' stock options.

In addition, previously and separately, during the first quarter of 2022, the Company separated certain section 16 executive officers. Each of the former executives are entitled to the benefits provided in their respective separation agreements, which include severance payments to be paid over twelve to eighteen months. As a result, the Company recognized $1.7 million expense for the six months ended June 30, 2022 within selling, general and administrative expenses. Additionally, the Company accelerated the vesting of certain outstanding stock options and extended the exercisability periods, which resulted in $3.9 million of compensation cost recognized in first quarter of 2022. Refer to Note 11 for information regarding stock compensation expense related to separations entered into in the first quarter of 2022.

9. Notes Payable

On June 4, 2021, the Company entered into the $35.0 million Loan Agreement with the Lenders. In accordance with the Loan Agreement, $20.0 million was funded on the closing date (the "Initial Note"), with the remaining $15.0 million fundable upon the Company achieving certain predetermined milestones, which the Company met in the third quarter of 2021. On July 30, 2021, after achieving a predetermined milestone, the Company borrowed an additional $10.0 million, which was evidenced by a second note payable (the "Second Note"). On September 29, 2021, after achieving a second predetermined milestone, the Company borrowed the remaining $5.0 million, which was evidenced by a third note payable (the "Third Note", and collectively with the Initial and Second Notes, the "Notes").

In June 2022, the Company, as collectively agreed upon with the Lenders, prepaid $15.0 million to the Lenders, of which $14.8 million was applied to principal and the remainder applied to accrued interest. As of June 30, 2022, the outstanding notes payable balance was $18.7 million, inclusive of the final payment fee. Avalo intends to consider additional prepayments prior to principal loan amounts coming due, if collectively agreed upon with the Lenders.

Each advance under the Loan Agreement will mature 42 months from the first day of the month following the funding of the advance. Each advance accrues interest at a per annum rate of interest equal to 6.25% plus the prime rate, as reported in the Wall Street Journal (subject to a floor of 3.25%). The Loan Agreement provides for interest-only payments for each advance for the first 18 months, however the interest-only period was extended to 24 months as a result of the Company satisfying the Interest Only Extension Milestone (as defined in the Loan Agreement) in the third quarter of 2021. Thereafter, amortization payments will be payable in monthly installments of principal and interest through each advance's maturity date. Upon ten business days' prior written notice, the Company may prepay all of the outstanding advances by paying the entire principal balance and all accrued and unpaid interest, subject to prepayment charges of up to 3% of the then outstanding principal balance. Upon the earlier of (i) payment in full of the principal balance, (ii) an event of default, or (iii) the maturity date, the Company will pay an additional final payment of 3% of the principal loan amount to the Lenders.

Each advance of the loan is secured by a lien on substantially all of the assets of the Company, other than Intellectual Property and Excluded Collateral (in each case as defined in the Loan Agreement), and contains customary covenants and representations, including a financial reporting covenant and limitations on dividends, indebtedness, collateral, investments, distributions, transfers, mergers or acquisitions taxes, corporate changes, deposit accounts, and subsidiaries.

The events of default under the Loan Agreement include, but are not limited to, failing to make a payment, breach of covenant, or occurrence of a material adverse change. If an event of default occurs, the Lenders are entitled to accelerate the loan amounts due or take other enforcement actions. The accelerated payment obligations would include the outstanding principal balance (inclusive of the 3% final payment fee), a prepayment charge on the outstanding principal balance of up to 3%, and any accrued and unpaid interest. As of the filing date of this Quarterly Report on Form 10-Q, the Company was not aware of any breach of covenants, occurrence of a material adverse change, nor had it received any notice of event of default from the Lenders.

On June 4, 2021, pursuant to the Loan Agreement, the Company issued warrants to the Lenders to purchase 33,656 shares of the Company's common stock with an exercise price of $31.20 per share (the "Warrants"). The Warrants are exercisable for ten years from the date of issuance. The Lenders may exercise the Warrants either by (a) cash or check or (b) through a net issuance conversion. The Warrants, which met equity classification, were recognized as a component of permanent stockholders' equity within additional paid-in-capital and were recorded at the issuance date using a relative fair value allocation method. The Company valued the Warrants at issuance, which resulted in a discount on the debt, and allocated the proceeds from the loan proportionately to the Notes and to the Warrants, of which $0.9 million was allocated to the Warrants.

In the second quarter of 2021, the Company incurred $2.1 million in debt issuance costs, including legal fees in connection with the Loan Agreement, fees paid directly to the Lenders, and other direct costs. All fees, warrants, and costs paid to the Lenders and all direct costs incurred by the Company are recognized as a debt discount and are amortized to interest expense using the effective interest method over the term of the loan. The $1.1 million final payment fee is included in the contractual cash flows and is accreted to interest expense using the effective interest method over the term of the loan.

The effective interest rate of the Notes, including the accretion of the final payment, was 17.7% as of June 30, 2022.

Balance sheet information related to the note payable for the Notes is as follows (in thousands):

	As of		
	June 30, 2022	December 31, 2021	Maturity
Initial Note	12,139	20,600	January 2025
Second Note	6,070	10,300	February 2025
Third Note	3,035	5,150	April 2025
Notes payable, gross[1]	21,244	36,050	
Less: Unamortized debt discount and issuance costs	2,531	3,217	
Carrying value of notes payable, non-current	18,713	32,833	

[1] *Balance includes $1.1 million final payment fee for the Notes, which represents 3% of the original principal loan amount.*

As of June 30, 2022, the estimated future principal payments due on the Notes were as follows (in thousands):

	As of June 30, 2022
2022	$ —
2023	5,930
2024	13,463
2025	1,851
Total principal payments[1]	$ 21,244

[1] *Balance includes $1.1 million final payment fee, which represents 3% of the original principal loan amount.*

10. Capital Structure

Pursuant to the Company's amended and restated certificate of incorporation, the Company is authorized to issue two classes of stock, common stock and preferred stock. At June 30, 2022, the total number of shares of capital stock the Company was authorized to issue was 205,000,000 of which 200,000,000 was common stock and 5,000,000 was preferred stock. All shares of common and preferred stock have a par value of $0.001 per share.

Common Stock

2021 Financings

Q3 2021 Equity Financing

On September 17, 2021, the Company closed an underwritten public offering of approximately 1.2 million shares of its common stock for net proceeds of $29.0 million. Armistice participated in the offering by purchasing approximately 0.5 million shares of common stock, on the same terms as all other investors. Certain affiliates of Nantahala Capital Management LLC (collectively, "Nantahala"), which beneficially owned greater than 5% of the Company's outstanding common stock at the time of the offering, participated in the offering on the same terms as all other investors.

At-the-Market Offering Program

In July 2021, the Company entered into an "at-the-market" sales agreement with Cantor Fitzgerald & Co. and RBC Capital Markets, LLC (together, the "Agents"), pursuant to which the Company may sell from time to time, shares of its common stock having an aggregate offering price of up to $50.0 million through the Agents. In August 2021, the Company sold approximately 0.2 million shares of common stock under the ATM Program for net proceeds of approximately $5.2 million.

Q2 2021 Debt Financing Agreement

As part of the Loan Agreement entered into in the second quarter of 2021, on June 4, 2021, the Company issued Warrants to Horizon and Powerscourt to purchase 33,656 shares of the Company's common stock with an exercise price of $31.20 per share. The Warrants are exercisable for ten years from the date of issuance. Refer to Note 9 for additional information.

Q1 2021 Financing

In January 2021, the Company closed an underwritten public offering of approximately 1.2 million shares of its common stock and 139,747 pre-funded warrants for net proceeds of $37.7 million. Armistice participated in the offering by purchasing approximately 0.2 million shares of common stock, on the same terms as all other investors. Nantahala participated in the offering by purchasing approximately 0.1 million shares of common stock, on the same terms as all other investors.

Nantahala also purchased the pre-funded warrants to purchase up to an aggregate of 139,747 shares of common stock at a purchase price of $1.188, which represents the per share public offering price for the common stock less the $0.012 per share exercise price for each pre-funded warrant. During 2021, the holder exercised 25,740 of the pre-funded warrants. As of June 30, 2022, 114,007 pre-funded warrants were outstanding.

Common Stock Warrants

At June 30, 2022, the following common stock warrants were outstanding:

Number of common shares underlying warrants	Exercise price per share	Expiration date
333,334	$ 150.00	June 2024
114,007	$ 0.012	—
33,656	$ 31.20	June 2031
480,997		

11. Stock-Based Compensation

2016 Equity Incentive Plan

In April 2016, our board of directors adopted the 2016 Equity Incentive Plan, which was approved by our stockholders in May 2016 and which was subsequently amended and restated in May 2018 and August 2019 with the approval of our board of directors and our stockholders (the "2016 Third Amended Plan"). During the term of the 2016 Third Amended Plan, the share reserve will automatically increase on the first trading day in January of each calendar year ending on (and including) January 1, 2026, by an amount equal to 4% of the total number of outstanding shares of common stock of the Company on the last trading day in December of the prior calendar year. On January 1, 2022, pursuant to the terms of the 2016 Third Amended and Restated Plan an additional 375,981 shares were made available for issuance. As of June 30, 2022, there were 243,228 shares available for future issuance under the 2016 Third Amended Plan.

Option grants expire after ten years. Employee options typically vest over four years. Employees typically receive a new hire option grant, as well as an annual grant in the first or second quarter of each year. In addition, in the first quarter of 2022, employees were also granted options that vest on the first anniversary of the grant date. Options granted to directors typically vest either immediately or over a period of one or three years. Directors may elect to receive stock options in lieu of board compensation, which vest immediately. For stock options granted to employees and non-employee directors, the estimated grant date fair market value of the Company's stock-based awards is amortized ratably over the individuals' service periods, which is the period in which the awards vest. Stock-based compensation expense includes expense related to stock options, restricted stock units and employee stock purchase plan shares. The amount of stock-based compensation expense recognized for the three and six months ended June 30, 2022 and 2021 was as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	2022	2021
Research and development	$ 365	$ 467	$ 653	$ 765
Selling, general and administrative	304	2,607	5,327	3,757
Total stock-based compensation	$ 669	$ 3,074	$ 5,980	$ 4,522

As a result of separation agreements that the Company entered into in the first quarter of 2022 and in accordance with the terms of the pre-existing employment agreements, the Company accelerated the vesting of certain separated employees' stock options and modified certain awards to extend the exercisability periods. As a result, the Company recognized $4.3 million of compensation cost

in the first quarter of 2022, all of which was recognized in selling, general and administrative expense. There was no additional expense related to the modifications in the three months ended June 30, 2022.

Stock options with service-based vesting conditions

The Company has granted options that contain service-based vesting conditions. The compensation cost for these options is recognized on a straight-line basis over the vesting periods. A summary of option activity for the six months ended June 30, 2022 is as follows:

	Options Outstanding			
	Number of shares	Weighted average exercise price per share	Weighted average grant date fair value per share	Weighted average remaining contractual term (in years)
Balance at December 31, 2021	1,054,277	$ 44.26	$ 27.45	8.1
Granted	439,590	$ 9.29	$ 6.66	
Forfeited	(168,063)	$ 32.37	$ 21.64	
Expired	(29,569)	$ 54.12	$ 42.09	
Balance at June 30, 2022	1,296,235	$ 33.72	$ 20.82	6.8
Exercisable at June 30, 2022	707,059	$ 45.36	$ 27.01	4.8

In March 2022, the Company granted 0.3 million options with service-based vesting conditions to its employees as part of its annual stock option award that vest over four years. Additionally in March 2022, the Company granted 0.1 million options to its employees that vest on the first anniversary of the grant date. As a result of the reduction of workforce plan, 0.1 million options were forfeited in the first quarter of 2022, and 0.1 million options were forfeited as a result of other terminations during the six months ended June 30, 2022.

There were 311,164 options that vested during the six months ended June 30, 2022 with a weighted average exercise price of $40.79 per share, which included the acceleration of vesting of certain options in accordance with the separation agreements entered in in the first quarter of 2022. The total grant date fair value of shares which vested during the six months ended June 30, 2022 was $8.2 million.

The Company recognized stock-based compensation expense of $0.6 million and $5.9 million related to stock options with service-based vesting conditions for the three and six months ended June 30, 2022, respectively. At June 30, 2022, there was $6.3 million of total unrecognized compensation cost related to unvested service-based vesting condition awards. The unrecognized compensation cost is expected to be recognized over a weighted-average period of 2.4 years.

Stock-based compensation assumptions

The following table shows the assumptions used to compute stock-based compensation expense for stock options with service-based vesting conditions granted under the Black-Scholes valuation model for the six months ended June 30, 2022:

Service-based options	
Expected term of option (in years)	5 - 6.25
Expected stock price volatility	84.0% - 86.8%
Risk-free interest rate	1.50% - 3.61%
Expected annual dividend yield	0%

Stock options with market-based vesting conditions

As of June 30, 2022 there were 0.1 million exercisable stock options that contained market-based vesting conditions (that had been previously satisfied). The options have a weighted average share price per share of $39.53 and a weighted average remaining contractual term of 2.0 years. There were no stock options with market-based vesting conditions granted, exercised, or forfeited for the six months ended June 30, 2022.

Restricted Stock Units

The Company measures the fair value of the restricted stock units using the stock price on the date of the grant. The restricted shares typically vest annually over a four-year period beginning on the first anniversary of the award. As of June 30, 2022, there were no unvested restricted stock units outstanding.937 restricted stock units vested during the three and six months ended June 30, 2022 and had a weighted average grant date fair value of $54.00.

Employee Stock Purchase Plan

On April 5, 2016, the Company's board of directors approved the 2016 Employee Stock Purchase Plan (the "ESPP"). The ESPP was approved by the Company's stockholders and became effective on May 18, 2016 (the "ESPP Effective Date").

Under the ESPP, eligible employees can purchase common stock through accumulated payroll deductions at such times as are established by the administrator. The ESPP is administered by the compensation committee of the Company's board of directors. Under the ESPP, eligible employees may purchase stock at 85% of the lower of the fair market value of a share of the Company's common stock (i) on the first day of an offering period or (ii) on the purchase date. Eligible employees may contribute up to 15% of their earnings during the offering period. The Company's board of directors may establish a maximum number of shares of the Company's common stock that may be purchased by any participant, or all participants in the aggregate, during each offering or offering period. Under the ESPP, a participant may not accrue rights to purchase more than $25,000 of the fair market value of the Company's common stock for each calendar year in which such right is outstanding.

The Company initially reserved and authorized up to 41,667 shares of common stock for issuance under the ESPP. On January 1 of each calendar year, the aggregate number of shares that may be issued under the ESPP automatically increases by a number equal to the lesser of (i) 1% of the total number of shares of the Company's capital stock outstanding on December 31 of the preceding calendar year, and (ii) 41,667 shares of the Company's common stock, or (iii) a number of shares of the Company's common stock as determined by the Company's board of directors or compensation committee. The number of shares were increased by 41,667 on January 1, 2022. As of June 30, 2022, 181,028 shares remained available for issuance.

In accordance with the guidance in ASC 718-50, *Employee Share Purchase Plans*, the ability to purchase shares of the Company's common stock at the lower of the offering date price or the purchase date price represents an option and, therefore, the ESPP is a compensatory plan under this guidance. Accordingly, stock-based compensation expense is determined based on the option's grant-date fair value and is recognized over the requisite service period of the option. The Company used the Black-Scholes valuation model and recognized stock-based compensation expense of $41.5 thousand and $84.7 thousand for the three and six months ended June 30, 2022, respectively.

12. Income Taxes

The Company recognized minimal income tax expense for the three and six months ended June 30, 2022 due to the significant valuation allowance against the Company's deferred tax assets and the current year losses. The Company recognized an income tax benefit of $0.2 million for the three and six months ended June 30, 2021 due to the receipt of its refund claim related to the tax year 2017. The tax benefit recognized for the six months ended June 30, 2020 was a result of a tax law change signed into law as part of the Coronavirus Aid, Relief and Economic Security Act ("CARES Act"), which allowed the Company to carry back certain losses for taxes paid in fiscal year 2017 and thus resulted in a refund claim. The 2021 income tax benefit was a result of the updated estimate of interest receivable and abatement of penalties on the refund claim, as the final refund payment was received from the Internal Revenue Service in the second quarter of 2021.

13. Commitments and Contingencies

Litigation

Litigation - General

The Company may become party to various contractual disputes, litigation, and potential claims arising in the ordinary course of business. The Company currently does not believe that the resolution of such matters will have a material adverse effect on its financial position or results of operations except as otherwise disclosed in this report.

Deerfield Guarantee

As consideration of the sale of the rights to the Company's rights, title and interest in assets relating to certain commercialized products to Aytu in 2019, Aytu assumed our financial obligations to Deerfield CSF, LLC ("Deerfield"), which currently includes the

remaining contingent consideration related to future royalties on the divested products. In conjunction with the closing of the transaction in 2019, the Company entered into a guarantee in favor of Deerfield, which guarantees the payment of the assumed liabilities to Deerfield (the "Guarantee"). Aytu publicly reported that it had entered into a Waiver, Release and Consent in June 2021, pursuant to which it paid a portion of the contingent consideration early and agreed to pay the remaining fixed obligations of $3.0 million in six equal quarterly payments of $0.5 million commencing September 30, 2021.

Avalo is required to make a payment under the Guarantee upon demand by Deerfield if all or any part of the fixed payments are not paid by Aytu when due or upon breach of a covenant. In accordance with the Waiver, Release and Consent, as of June 30, 2022, the Company estimates Aytu has two quarterly payments of $0.5 million remaining, which represents Avalo's estimated maximum potential future payments under the Guarantee. The Company concluded that the expected credit loss of the Guarantee was de minimis as of June 30, 2022, based on considerations of Aytu's ability to meet its current financial commitments including recent financings, cash position, operating cash flows and trends.

Karbinal Royalty Make-Whole Provision

In 2018, in connection with the acquisition of certain commercialized products, the Company entered into a supply and distribution agreement (the "Karbinal Agreement") with TRIS Pharma Inc. ("TRIS"). As part of the Karbinal Agreement, the Company had an annual minimum sales commitment, which is based on a commercial year that spans from August 1 through July 31, of 70,000 units through 2025. The Company was required to pay TRIS a royalty make whole payment ("Make-Whole Payments") of $30 for each unit under the 70,000 units annual minimum sales commitment through 2025.

As a part of the Aytu transaction, the Company assigned all payment obligations, including the Make-Whole Payments, under the Karbinal Agreement (collectively, the "TRIS Obligations") to Aytu. However, under the original license agreement, the Company could ultimately be liable for the TRIS Obligations to the extent Aytu fails to make the required payments. The future Make-Whole Payments to be made by Aytu are unknown as the amount owed to TRIS is dependent on the number of units sold.

Possible Future Milestone Payments for In-Licensed Compounds

General

The Company is a party to license and development agreements with various third parties, which contain future payment obligations such as royalties and milestone payments (discussed further below). The Company recognizes a liability (and related expense) for each milestone if and when such milestone is probable and can be reasonably estimated. As typical in the biotechnology industry, each milestone has its own unique risks that the Company evaluates when determining the probability of achieving each milestone and the probability of success evolves over time as the programs progress and additional information is obtained. The Company considers numerous factors when evaluating whether a given milestone is probable including (but not limited to) the regulatory pathway, development plan, ability to dedicate sufficient funding to reach a given milestone and the probability of success.

AVTX-002 KKC License Agreement

On March 25, 2021, the Company entered into a license agreement with Kyowa Kirin Co., Ltd. ("KKC") for exclusive worldwide rights to develop, manufacture and commercialize AVTX-002, KKC's first-in-class fully human anti-LIGHT (TNFSF14) monoclonal antibody for all indications (the "KKC License Agreement"). The KKC License Agreement replaced the Amended and Restated Clinical Development and Option Agreement between the Company and KKC dated May 28, 2020.

Under the KKC License Agreement, the Company paid KKC an upfront license fee equal to $10.0 million. The Company is also required to pay KKC up to $112.5 million based on the achievement of specified development and regulatory milestones. Upon commercialization, the Company is required to pay KKC sales-based milestones aggregating up to $75.0 million tied to the achievement of annual net sales targets.

Additionally, the Company is required to pay KKC royalties during a country-by-country royalty term equal to a mid-teen percentage of annual net sales. The Company is required to pay KKC a double-digit percentage (less than 30%) of the payments that the Company receives from sublicensing of its rights under the KKC License Agreement, subject to certain exclusions. Avalo is responsible for the development and commercialization of AVTX-002 in all indications worldwide (other than the option in the KKC License Agreement that, upon exercise by KKC, allows KKC to develop, manufacture and commercialize AVTX-002 in Japan).

No expense related to the KKC License Agreement was recognized in the six months ended June 30, 2022. The Company recognized the upfront license fee of $10.0 million within research and development expenses in the six months ended June 30, 2021. There has

been no cumulative expense recognized as of June 30, 2022 related to the milestones under this license agreement. The Company will continue to monitor the milestones at each reporting period.

AVTX-006 Astellas License Agreement

The Company has an exclusive license agreement with OSI Pharmaceuticals, LLC, an indirect wholly owned subsidiary of Astellas Pharma, Inc. ("Astellas"), for the worldwide development and commercialization of the novel, second generation mTORC1/2 inhibitor (AVTX-006). Under the terms of the license agreement, there was an upfront license fee of $0.5 million. The Company is required to pay Astellas up to $5.5 million based on the achievement of specified development and regulatory milestones. The Company is also required to pay Astellas a tiered mid-to-high single digit percentage of the payments that Avalo receives from sublicensing of its rights under the Astellas license agreement, subject to certain exclusions. Upon commercialization, the Company is required to pay Astellas royalties during a country-by-country royalty term equal to a tiered mid-to-high single digit percentage of annual net sales. Avalo is fully responsible for the development and commercialization of the program.

No expense related to this license agreement was recognized in the six months ended June 30, 2022.There has been $0.5 million of cumulative expense recognized as of June 30, 2022 related to the milestones under this license agreement, which was recognized in the six months ended June 30, 2021. The Company will continue to monitor the remaining milestones at each reporting period.

AVTX-007 MedImmune License Agreement

As discussed further in Note 14, on July 29, 2022, the Company granted Apollo AP43 Limited, a wholly owned subsidiary of Apollo Therapeutics Group Limited (collectively, "Apollo"), a worldwide, exclusive license to research, develop, manufacture and commercialize AVTX-007. Under the terms of the agreement, Apollo will assume responsibility for the future development of AVTX-007.

The AVTX-007 program was originally licensed to Avalo by MedImmune Limited, a subsidiary of AstraZeneca plc ("MedImmune"), and such license was transferred to Apollo as part of the transaction. Accordingly, the Company is no longer responsible for future milestones or royalties under the original license with MedImmune. Refer to Note 14 for further information.

AVTX-008 Sanford Burnham Prebys License Agreement

On June 22, 2021, the Company entered into an Exclusive Patent License Agreement with Sanford Burnham Prebys Medical Discovery Institute (the "Sanford Burnham Prebys License Agreement") under which the Company obtained an exclusive license to a portfolio of issued patents and patent applications covering an immune checkpoint program (AVTX-008).

Under the terms of the agreement, the Company incurred an upfront license fee of $0.4 million, as well as patent costs of $0.5 million. The Company is required to pay Sanford Burnham Prebys up to $24.2 million based on achievement of specified development and regulatory milestones. Upon commercialization, the Company is required to pay Sanford Burnham Prebys sales-based milestone payments aggregating up to $50.0 million tied to annual net sales targets. Additionally, the Company is required to pay Sanford Burnham Prebys royalties during a country-by-country royalty term equal to a low-to-mid single digit percentage of annual net sales. The Company is also required to pay Sanford Burnham Prebys a tiered low-double digit percentage of the payments that Avalo receives from sublicensing of its rights under the Sanford Burnham Prebys License Agreement, subject to certain exclusions. Avalo is fully responsible for the development and commercialization of the program.

No expense related to the Sanford Burnham Prebys License Agreement was recognized in the six months ended June 30, 2022. The Company recognized the upfront license fee of $0.4 million within research and development expenses and the upfront patent expense of $0.5 million within selling, general and administrative expenses in the three and six months ended June 30, 2021. There has been no cumulative expense recognized as of June 30, 2022 related to the milestones under the Sanford Burnham Prebys License Agreement. The Company will continue to monitor the milestones at each reporting period.

Possible Future Milestone Proceeds for Out-Licensed Compounds

AVTX-301 Out-License

On May 28, 2021, the Company out-licensed its rights in respect of its non-core asset, AVTX-301, to Alto Neuroscience, Inc. ("Alto"). The Company initially in-licensed the compound from an affiliate of Merck & Co., Inc. ("Merck") in 2013.

Under the out-license agreement, the Company received a mid-six digit upfront payment from Alto. The Company is also eligible to receive up to $18.6 million based on the achievement of specified development, regulatory and commercial sale milestones. Additionally, the Company is entitled to a less than single digit percentage royalty based on annual net sales. Alto is fully responsible for the development and commercialization of the program.

Avalo recognized the upfront fee as license revenue in the three and six months ended June 30, 2021. The Company has not recognized any milestones as of June 30, 2022.

AVTX-406 License Assignment

On June 9, 2021, the Company assigned its rights, title, interest, and obligations under an in-license covering its non-core asset, AVTX-406, to ES Therapeutics, LLC ("ES"), a wholly-owned subsidiary of Armistice. The transaction with ES was approved in accordance with Avalo's related party transaction policy.

Under the assignment agreement, the Company received a low-six digit upfront payment from ES. The Company is also eligible to receive up to $5.0 million based on the achievement of specified development and regulatory milestones. Upon commercialization, the Company is eligible to receive sales-based milestone payments aggregating up to $20.0 million tied to annual net sales targets. ES is fully responsible for the development and commercialization of the program.

Avalo recognized the upfront fee as license revenue in the three and six months ended June 30, 2021. The Company has not recognized any milestones as of June 30, 2022.

AVTX-501 Sale to Janssen

In August 2017, the Company sold its worldwide rights to AVTX-501 to Janssen Pharmaceuticals, Inc. ("Janssen") in exchange for initial gross proceeds of $25.0 million. The Company is also eligible to receive up to $20.0 million based on the achievement of specified development and regulatory milestones. Janssen is fully responsible for the development and commercialization of the program.

The Company has not recognized any milestones as of June 30, 2022.

AVTX-611 License Assignment

In August 2019, the Company assigned its rights, title, interest, and obligations under an in-license covering its non-core asset, AVTX-611, to ES, a wholly-owned subsidiary of Armistice. The transaction with ES was approved in accordance with Avalo's related-party transaction policy.

Upon commercialization, the Company is eligible to receive sales-based milestone payments aggregating up to $20.0 million tied to annual net sales targets. ES is fully responsible for the development and commercialization of the program.

The Company has not recognized any milestones as of June 30, 2022.

Acquisition Related and Related Party Contingent Liabilities

Aevi Merger Possible Future Milestone Payments

In the first quarter of 2020, the Company consummated its merger with Aevi Genomic Medicine Inc. ("Aevi"), in which Avalo acquired the rights to AVTX-002, AVTX-006 and AVTX-007 (the "Merger" or the "Aevi Merger"). A portion of the consideration for the Aevi Merger included two future contingent development milestones worth up to an additional $6.5 million, payable in either shares of Avalo's common stock or cash, at the election of Avalo.

The first milestone was the enrollment of a patient in a Phase 2 study related to AVTX-002 (for treatment of pediatric onset Crohn's disease), AVTX-006 (for treatment of any indication) or AVTX-007 (for treatment of any indication) prior to February 3, 2022, which would have resulted in a milestone payment of $ 2.0 million. The Company did not meet the first milestone prior to February 3, 2022. Therefore, no contingent consideration related to this milestone was recognized as of June 30, 2022 and no future contingent consideration will be recognized.

The second milestone is the receipt of NDA approval for either AVTX-006 or AVTX-007 from the FDA on or prior to February 3, 2025. If this milestone is met, the Company is required to make a milestone payment of $4.5 million. The contingent consideration related to the second development milestone will be recognized if and when such milestone is probable and can be reasonably estimated. No contingent consideration related to the development milestone has been recognized as of June 30, 2022. The Company will continue to monitor the second development milestones at each reporting period.

AVTX-006 Royalty Agreement with Certain Related Parties

In July 2019, Aevi entered into a royalty agreement, and liabilities thereunder were assumed by the Company upon closing the Aevi Merger in February 2020. The royalty agreement provided certain Aevi investors, including LeoGroup Private Investment Access, LLC on behalf of Garry Neil, the Company's former Chief Executive Officer, and Mike Cola, the Company's former Chief Executive Officer (collectively, the "Investors"), a royalty stream, in exchange for a one-time aggregate payment of $ 2.0 million (the "Royalty Agreement"). Pursuant to the Royalty Agreement, the Investors will be entitled collectively to an aggregate amount equal to a low-single digit percentage of the aggregate net sales of the Company's second generation mTORC1/2 inhibitor, AVTX-006. At any time beginning three years after the date of the first public launch of AVTX-006, Avalo may exercise, at its sole discretion, a buyout option that terminates any further obligations under the Royalty Agreement in exchange for a payment to the Investors of an aggregate of 75% of the net present value of the royalty payments. A majority of the independent members of the board of directors and the audit committee of Aevi approved the Royalty Agreement.

Avalo assumed this Royalty Agreement upon closing of the Aevi Merger and it is recorded as a royalty obligation within the Company's accompanying condensed consolidated balance sheet as of June 30, 2022. Because there is a significant related party relationship between the Company and the Investors, the Company has treated its obligation to make royalty payments under the Royalty Agreement as an implicit obligation to repay the funds advanced by the Investors. As the Company makes royalty payments in accordance with the Royalty Agreement, it will reduce the liability balance. At the time that such royalty payments become probable and estimable, and if such amounts exceed the liability balance, the Company will impute interest accordingly on a prospective basis based on such estimates, which will result in a corresponding increase in the liability balance.

Ichorion Asset Acquisition Possible Future Milestone Payments

In September 2018, the Company acquired Ichorion Therapeutics, Inc. including acquiring three compounds for inherited metabolic disorders known as CDGs (AVTX-801, AVTX-802 and AVTX-803) and one other preclinical compound. Consideration for the transaction included shares of Avalo common stock and three future contingent development milestones for the acquired compounds worth up to an additional $15.0 million, payable in either shares of Avalo's common stock or cash, at the election of Avalo.

The first and second milestones were marketing approval of the first and second product, respectively, by the FDA on or prior to December 31, 2021, which would have resulted in milestone payments of $6.0 million and $5.0 million, respectively. The Company did not meet the first or second milestone as of December 31, 2021. As a result, no contingent consideration related to these milestones was recognized as of June 30, 2022 and no future contingent consideration will be recognized.

The third milestone is the marketing approval of a protide molecule by the FDA on or prior to December 31, 2023. If this milestone is met, the Company is required to make a milestone payment of $4.0 million. The contingent consideration related to the third development milestone will be recognized if and when such milestone is probable and can be reasonably estimated. No contingent consideration related to the third development milestone has been recognized as of June 30, 2022. The Company will continue to monitor the third development milestones at each reporting period.

14. Subsequent Events

On July 29, 2022, the Company entered into a license agreement with Apollo pursuant to which the Company: (i) granted to Apollo a worldwide, exclusive license granting rights to Apollo to research, develop, manufacture and commercialize AVTX-007 (the "Apollo License Agreement") and (ii) entered into a novation agreement, dated July 29, 2022, pursuant to which the MedImmune license, dated August 6, 2019, between the Company and MedImmune, was replaced by a substantially similar novated license agreement between Apollo and MedImmune.

In August 2022, the Company received $5 million as an upfront fee and an additional approximate $10 million as partial consideration for transition, consulting and transfer activities. The Company is also eligible to receive up to $6.25 million in regulatory or development milestones and up to $67.5 million in milestones based on annual global net sales of products licensed under the Apollo License Agreement. Additionally, the Company is entitled to a royalty payment of a low single digit percentage of annual net sales,

which percentage increases to another low single digit percentage if annual net sales exceed a specified amount, subject to certain adjustments.

Pursuant to the terms of the Apollo License Agreement, Apollo will assume responsibility for future development of AVTX-007, including the ongoing clinical trial of AVTX-007 for the treatment of adult-onset Still's disease. The Company will also assign certain AVTX-007 related contracts and other assets to Apollo. The Company will evaluate the accounting impact of the transaction in the third quarter of 2022.

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

This Quarterly Report on Form 10-Q and the information incorporated herein by reference contain forward-looking statements that involve a number of risks and uncertainties, as well as assumptions that, if they never materialize or prove incorrect, could cause our results to differ materially from those expressed or implied by such forward-looking statements. Forward-looking statements can be identified by the use of forward-looking words such as "projects," "may," "might," "will," "could," "would," "should," "continue," "seeks," "aims," "predicts," "believes," "expects," "anticipates," "estimates," "intends," "plans," "potential," "pro forma" or other similar words (including their use in the negative), or by discussions of future matters such as: the future financial and operational outlook; the development of product candidates; and other statements that are not historical. Although our forward-looking statements reflect the good faith judgment of our management, these statements can only be based on facts and factors currently known by us. Consequently, forward-looking statements are inherently subject to risks and uncertainties, and actual results and outcomes may differ materially from results and outcomes discussed in the forward-looking statements. Factors that could cause or contribute to these differences include those below and elsewhere in this Quarterly Report on Form 10-Q, particularly in Part II – Item 1A, "Risk Factors," as well as in our Annual Report on Form 10-K filed with the Securities and Exchange Commission, or SEC, on March 2, 2022, and in our other filings with the SEC. Statements made herein are as of the date of the filing of this Quarterly Report on Form 10-Q with the SEC and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation to update any forward-looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited financial statements and related notes that appear in Item 1 of this Quarterly Report on Form 10-Q and with our audited financial statements and related notes for the year ended December 31, 2021 appearing in our Annual Report on Form 10-K filed with the SEC on March 2, 2022.

Overview

Avalo Therapeutics, Inc. (the "Company" or "Avalo" or "we") is a leading clinical-stage precision medicine company that discovers, develops, and commercializes targeted therapeutics for patients with significant unmet clinical need in immunology and rare genetic diseases. We have built a diverse portfolio of innovative therapies to deliver meaningful medical impact for patients in urgent need. Our clinical candidates commonly have a proven mechanistic rationale, biomarkers and/or an established proof-of-concept to expedite and increase the probability of success.

Management's primary evaluation of the success of the Company is the ability to progress its pipeline assets forward towards commercialization or opportunistically out-licensing rights to indications or geographies. This success depends not only on the operational execution of the programs, but also the ability to secure sufficient funding to support the programs. We believe the ability to achieve the anticipated milestones represents our most immediate evaluation points. The following chart summarizes key information about our clinical-stage pipeline and anticipated research & development milestones:

Program	Mechanism of Action	Lead Indication	Designation	Clinical Development Stage			Anticipated Milestone
				Phase 1	Phase 2	Phase 3/Pivotal	
Immunology							
AVTX-002	Anti-LIGHT mAb	NEA	–				Phase 2 Top-line Data 1H 2023
		IBD	–				*
		COVID-19 ARDS	Fast Track				**
Rare Genetic Diseases							
AVTX-803	L-fucose replacement	LAD II (SLC35C1-CDG)	ODD RPDD Fast Track				Pivotal Trial Data 1H 2023
AVTX-801	D-galactose replacement	PGM1-CDG					Pivotal Trial Data ‡

* Avalo is considering a possible randomized, double-blind, placebo-controlled clinical trial in moderate-to-severe refractory patients with IBD

** Further development of AVTX-002 for treatment of COVID-19 ARDS is currently dependent on third party funding

‡ The AVTX-801 program milestone timing and development plan is under review as a result of recent FDA feedback

ARDS, acute respiratory distress syndrome; IBD, inflammatory bowel disease; CDG, congenital disorder of glycosylation; IL, interleukin; LAD, leukocyte adhesion deficiency; mAb, monoclonal antibody; NEA, non-eosinophilic asthma; ODD, orphan drug designation; PGM1, phosphoglucomutase 1; RPDD, rare pediatric disease designation, Inflammatory bowel disease (IBD)

Recent Developments

Our focus during the second quarter of 2022 was progressing our pipeline programs forward to meaningful data readouts, notably AVTX-002 for the treatment of non-eosinophilic asthma ("NEA") and AVTX-803 for the treatment of leukocyte adhesion deficiency type II ("LAD-II"). In May 2022, we dosed the first patient in the Company's Phase 2 PEAK (A Phase 2, Randomized, Double-Blind, Placebo-Controlled, Parallel Group Study to Evaluate the Safety and Efficacy of AVTX-002 for the Treatment of **P**oorly Controlled Non-**E**osinophilic **A**sthma **K**) trial evaluating AVTX-002 for NEA.

Further, in July 2022, we dosed the first patient in the Company's Phase 3 LADDER (A Phase 3, Randomized, Double-Blind, Two-Period, Crossover, Withdrawal Study to Assess the Efficacy and Safety of AVTX-803 in Subjects with **L**eukocyte **AD**hesion **D**eficiency Type II (LA**DD**) (**ER**)) trial evaluating AVTX-803 in patients with LAD II. This trial is to be followed by an open-label extension.

On July 7, 2022, Avalo effected a 1-for-12 reverse stock split. The Company implemented the reverse stock split to increase the per share price of its common stock to regain compliance with the listing requirements of the Nasdaq Capital Market. Avalo regained compliance on July 22, 2022.

On July 29, 2022, Avalo granted a worldwide, exclusive license to Apollo Therapeutics Group Limited ("Apollo"), granting rights to Apollo to research, develop, manufacture and commercialize AVTX-007, Avalo's anti-IL-18 monoclonal antibody product. In August 2022, Avalo received the approximate $15 million of upfront payment. Avalo is also eligible to receive up to $74 million of milestones, as well as a royalty payment of a low single digit percentage of annual net sales. The AVTX-007 program was originally licensed to Avalo by MedImmune Limited, a subsidiary of AstraZeneca plc, and such license was transferred to Apollo as part of the transaction.

Our Strategy
Our strategy for increasing stockholder value includes:

- Advancing our pipeline of compounds through development and to regulatory approval;
- Developing the go-to-market strategy to quickly and effectively market, launch, and distribute each of our compounds that receive regulatory approval;
- Opportunistically out-licensing rights to indications or geographies; and
- Acquiring or licensing rights to targeted, complementary differentiated preclinical and clinical stage compounds.

Results of Operations

Comparison of the Three Months Ended June 30, 2022 and 2021

Product Revenue, Net

Net product revenue was $1.0 million for the three months ended June 30, 2022, compared to $2.7 million for the three months ended June 30, 2021. The decrease was mainly attributable to a decrease in units sold, which may have been caused by disruptions to the sales channel as a result of the transition of commercial operations from Aytu BioScience, Inc. ("Aytu") to Avalo in the second half of 2021. The Company is uncertain whether these potential disruptions will be temporary or have a permanent impact on future sales.

License Revenue

Avalo recognized $0.6 million of license revenue for the three months ended June 30, 2021 related to upfront fees received pursuant to the out-license and assignment, respectively, of the rights to its non-core neurology pipeline assets, AVTX-301 and AVTX-406 to Alto Neurosciences, Inc. ("Alto") and ES Therapeutics, LLC ("ES"), respectively. These transactions were unique to the prior period.

ES is a wholly-owned subsidiary of Armistice Capital Master Fund Ltd. (an affiliate of Armistice Capital, LLC and collectively "Armistice"), which is a significant stockholder of the Company and whose chief investment officer, Steven Boyd, and managing director, Keith Maher, currently serve on the Board of the Company. The transaction with ES was approved in accordance with Avalo's related party transaction policy.

Cost of Product Sales

Cost of product sales were $1.6 million for the three months ended June 30, 2022, compared to $0.1 million for the same period in 2021. $0.4 million of the increase was driven by the fifty percent net profit share with the supplier that began on July 1, 2021. Further, in the second quarter of 2022, we fully reserved for the $1.0 million receivable due in December 2024 pursuant to the transition service agreement with Aytu, given Aytu disclosed in their Quarterly Report on Form 10-Q for the quarter ended March 31, 2022, that substantial doubt exists with respect to their ability to continue as a going concern within one year after the date that the financial statements were issued, or May 2023. We recognized the expense in cost of product sales for the three months ended June 30, 2022, which drove the remainder of the increase.

Research and Development Expenses

The following table summarizes our research and development expenses for the three months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,	
	2022	2021
Preclinical expenses	$ 569	$ 2,110
Clinical expenses	3,248	2,460
CMC expenses	2,967	4,905
License and milestone expenses	—	400
Internal expenses:		
Salaries, benefits and related costs	1,291	2,160
Stock-based compensation expense	365	467
Other	70	67
	$ 8,510	$ 12,569

Research and development expenses decreased $4.1 million for the three months ended June 30, 2022, compared to the same period in 2021.

Notably, chemistry, manufacturing, and controls (“CMC”) and preclinical expenses decreased $1.9 million and $1.5 million, respectively. CMC expenses decreased largely due to the timing of raw material purchases in the second quarter of 2021 that did not repeat in the second quarter of 2022. Preclinical expenses decreased due to non-clinical activities and biomarker studies in the second quarter of 2021 that did not repeat in the second quarter of 2022. These decreases were partially offset by increased clinical expenses related to the AVTX-002 PEAK study.

Additionally, salaries, benefits and related costs decreased $0.9 million due to the reduction in headcount implemented in the first quarter of 2022 and cost savings initiatives.

Selling, General and Administrative Expenses

The following table summarizes our selling, general and administrative expenses for the three months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,	
	2022	2021
Salaries, benefits and related costs	$ 496	$ 1,300
Legal, consulting and other professional expenses	1,554	2,685
Stock-based compensation expense	304	2,607
Advertising and marketing expense	14	432
Other	416	380
	$ 2,784	$ 7,404

Selling, general and administrative expenses decreased $4.6 million for the three months ended June 30, 2022 compared to the same period in 2021 due to decreased headcount and cost savings initiatives. Notably, non-cash stock based compensation expense decreased $2.3 million due to decreased headcount and $1.4 million of modification expense recognized in the prior period that did

not repeat. Legal, consulting and other professional expenses decreased $1.1 million due to reduced recruiting, consulting and legal expenses as a result of cost savings initiatives.

We expect selling, general and administrative expenses to decrease as compared to historical periods prior to the reduction in headcount and other cost savings initiatives implemented in the first quarter of 2022.

Amortization Expense

The following table summarizes our amortization expense for the three months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,	
	2022	2021
Amortization of intangible assets	$ —	$ 428

Avalo's acquired assembled workforce and acquired product marketing rights were fully amortized in the first quarter of 2022 and fourth quarter of 2021, respectively, thus driving the $0.4 million decrease as compared to the prior period. We expect amortization expense to decrease as compared to historical prior periods given the intangible assets are fully amortized.

Other Expense, Net

The following table summarizes our other expense, net for the three months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,	
	2022	2021
Other expense, net	—	(5)
Interest expense, net	(1,154)	(239)
	$ (1,154)	$ (244)

Other expense, net was mainly comprised of interest expense related to the venture loan and security agreement for the three months ended June 30, 2022. Avalo entered into the loan agreement in June 2021 and therefore only recognized a partial period of interest expense in the prior period, which drove the increase for the three months ended June 30, 2022.

In June 2022, the Company made a partial prepayment of $15.0 million under the venture loan and security agreement. Therefore, we expect future interest expense to decrease as compared to prior periods.

Income Tax Expense

The following table summarizes our income tax expense for the three months ended June 30, 2022 and 2021 (in thousands):

	Three Months Ended June 30,	
	2022	2021
Income tax expense (benefit)	$ 5	$ (199)

The Company recognized minimal income tax expense for the three months ended June 30, 2022 compared to an income tax benefit of $0.2 million for the three months ended June 30, 2021. The income tax benefit in the prior period was a result of the updated estimate of interest receivable and abatement of penalties on the refund claim, as the final refund payment was received from the Internal Revenue Service in the second quarter of 2021.

Comparison of the Six Months Ended June 30, 2022 and 2021

Product Revenue, Net

Net product revenue was $2.2 million for the six months ended June 30, 2022, compared to $3.2 million for the six months ended June 30, 2021. The decrease was mainly attributable to a decrease in units sold, which may have been caused by disruptions to the sales channel as a result of the transition of commercial operations from Aytu to Avalo in the second half of 2021. The Company is uncertain whether these potential disruptions will be temporary or have a permanent impact on future sales.

License Revenue

Avalo recognized $0.6 million of license revenue for the six months ended June 30, 2021, related to upfront fees received pursuant to the out-license and assignment, respectively, of the rights to its non-core neurology pipeline assets, AVTX-301 and AVTX-406, to Alto and ES, respectively. These transactions were unique to the prior period.

ES is a wholly-owned subsidiary of Armistice. The transaction with ES was approved in accordance with Avalo's related party transaction policy.

Cost of Product Sales

Cost of product sales were $2.3 million for the six months ended June 30, 2022, compared to $0.2 million for the same period in 2021. $1.0 million of the increase was driven by the fifty percent net profit share with the supplier that began on July 1, 2021. Further, in the second quarter of 2022, we fully reserved for the $1.0 million receivable due in December 2024 pursuant to the transition service agreement with Aytu, given Aytu disclosed in their Quarterly Report on Form 10-Q for the quarter ended March 31, 2022 that substantial doubt exists with respect to their ability to continue as a going concern within one year after the date the financial statements were issued, or May 2023. We recognized expense in the cost of product sales for the six months ended June 30, 2022, which drove the remainder of the increase.

Research and Development Expenses

The following table summarizes our research and development expenses for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
Preclinical expenses	$ 1,568	$ 4,344
Clinical expenses	6,034	7,900
CMC expenses	5,113	9,639
License and milestone expenses	—	10,900
Internal expenses:		
Salaries, benefits and related costs	4,559	4,097
Stock-based compensation expense	653	765
Other	167	129
	$ 18,094	$ 37,774

Research and development expenses decreased $19.7 million for the six months ended June 30, 2022 compared to the same period in 2021. In the first quarter of 2021, the Company recognized a $10.0 million upfront license fee related to the expanded indication license agreement for AVTX-002 with Kyowa Kirin Co., Ltd. ("KKC"), which did not repeat in the current period.

The remaining $9.7 million decrease was primarily driven by a decrease in CMC, preclinical and clinical expenses. CMC expenses decreased $4.5 million due to the timing of raw material purchases in the first half of 2021 that did not repeat in the first half of 2022. Preclinical expenses decreased $2.8 million primarily due to non-clinical activities and biomarker studies in the first half 2021 that did not repeat in the first half of 2022. Clinical expenses decreased $1.9 million due to fewer clinical trials ongoing in the current period as a result of certain programs being paused or wound down in 2022. However, these decreases were partially offset by increased clinical activities related to the AVTX-002 PEAK study.

The decreases noted above were partially offset by a $0.5 million increase to salaries, benefits and related costs driven by severance expense incurred as a result of the headcount reduction implemented in the first quarter of 2022.

Selling, General and Administrative Expenses

The following table summarizes our selling, general and administrative expenses for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
Salaries, benefits and related costs	$ 4,597	$ 2,409
Legal, consulting and other professional expenses	3,797	5,277
Stock-based compensation expense	5,327	3,757
Advertising and marketing expense	57	562
Other	690	746
	$ 14,468	$ 12,751

Selling, general and administrative expenses increased $1.7 million for the six months ended June 30, 2022 compared to the same period in 2021 due to expenses related to headcount reductions from the pipeline prioritization plan and other separations. Avalo recognized $2.4 million of severance expense and $4.3 million of stock-based compensation expense related to modifications of separated employee's stock options during the period.

These increases were partially offset by a $1.5 million decrease in legal, consulting and other professional expenses and a $0.5 million decrease in advertising and marketing expenses. The decreases were driven by reduced recruiting, marketing, consulting and legal expenses as a result of cost savings initiatives.

We expect selling, general and administrative expenses to decrease as compared to historical periods prior to the reduction in headcount and other cost savings initiatives implemented in the first quarter of 2022.

Amortization Expense

The following table summarizes our amortization expense for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
Amortization of intangible assets	$ 38	$ 853

Avalo's acquired assembled workforce and acquired product marketing rights were fully amortized in the first quarter of 2022 and fourth quarter of 2021, respectively, thus driving the $0.8 million decrease as compared to the prior period. We expect amortization expense to decrease as compared to historical periods given the intangible assets are fully amortized.

Other Expense, Net

The following table summarizes our other expense, net for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
Other expense, net	(20)	(5)
Interest expense, net	(2,323)	(222)
	$ (2,343)	$ (227)

Other expense, net was comprised of interest expense related to the venture loan and security agreement for the six months ended June 30, 2022 and 2021. Avalo entered into the loan agreement in June 2021 and therefore only recognized a partial period of interest expense in the prior period, which drove the increase for the six months ended June 30, 2022.

In June 2022, the Company made a partial prepayment of $15.0 million under the venture loan and security agreement. Therefore, we expect future interest expense to decrease as compared to prior periods.

Income Tax Expense

The following table summarizes our income tax expense for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
Income tax expense (benefit)	$ 15	$ (188)

The Company recognized minimal income tax expense for the six months ended June 30, 2022 compared to an income tax benefit of $0.2 million for the six months ended June 30, 2021. The income tax benefit in the prior period was a result of the updated estimate of interest receivable and abatement of penalties on the refund claim, as the final refund payment was received from the Internal Revenue Service in the second quarter of 2021.

Liquidity and Capital Resources

In order to meet its cash flow needs, the Company applies a disciplined decision-making methodology as it evaluates the optimal allocation of the Company's resources between investing in the Company's existing pipeline assets and acquisitions or in-licensing of new assets. As of June 30, 2022, Avalo had $11.2 million in cash and cash equivalents. Subsequent to June 30, 2022, in August 2022, Avalo received the approximate $15 million of upfront payment from its transfer of AVTX-007 on July 29, 2022. Refer to Note 14 of the condensed consolidated financial statements for further information. For the six months ended June 30, 2022, Avalo generated a net loss of $35.0 million and negative cash flows from operations of $28.5 million. As of June 30, 2022, Avalo had an accumulated deficit of $297.2 million.

In June 2022, as collectively agreed upon with the Lenders, the Company made a partial prepayment of $15.0 million ($14.8 million of which was applied to principal) under its venture loan and security agreement (the "Loan Agreement") with Horizon Technology Finance Corporation ("Horizon") and Powerscourt Investments XXV, LP ("Powerscourt", and together with Horizon, the "Lenders"). Avalo intends to consider additional prepayments prior to principal loan amounts coming due, if collectively agreed upon with the Lenders. As of June 30, 2022, the carrying value of the Notes (as defined in Note 9 of the condensed consolidated financial statements) was $18.7 million.

The accompanying unaudited condensed consolidated financial statements have been prepared assuming the Company will continue as a going concern; however, losses are expected to continue as the Company continues to invest in its research and development pipeline assets. The Company will require additional financing to fund its operations and to continue to execute its business strategy within one year after the date the unaudited condensed consolidated financial statements included herein were issued. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

To mitigate these conditions and to meet the Company's capital requirements, management plans to use its current cash on hand along with some combination of the following: (i) dilutive and/or non-dilutive financings, (ii) other out-licensing or strategic alliances/collaborations of its current pipeline assets, (iii) out-licensing or sale of its non-core assets, and (iv) federal and/or private grants. If the Company raises additional funds through collaborations, strategic alliances or licensing arrangements with third parties, the Company might have to relinquish valuable rights to its technologies, future revenue streams, research programs or product candidates. Subject to limited exceptions, the Loan Agreement prohibits the Company from incurring certain additional indebtedness, making certain asset dispositions, and entering into certain mergers, acquisitions or other business combination transactions without the prior consent of the Lenders. Additionally, the Loan Agreement contains certain covenants and certain other specified events that could result in an event of default, which if not cured or waived, could result in the immediate acceleration of all or a substantial portion of the outstanding notes. As of the filing date of this Quarterly Report on Form 10-Q, the Company was not aware of any breach of covenants or occurrence of material adverse change, nor had it received any notice of event of default from the Lenders (refer to Note 9 of the condensed consolidated financial statements for more information).

If the Company requires but is unable to obtain additional funding, the Company may be forced to make reductions in spending, delay, suspend, reduce or eliminate some or all of its planned research and development programs, or liquidate assets where possible. Due to the uncertainty regarding future financing and other potential options to raise additional funds, management has concluded that substantial doubt exists with respect to the Company's ability to continue as a going concern within one year after the date that the financial statements in this Quarterly Report on Form 10-Q were issued.

Over the long term, the Company's ultimate ability to achieve and maintain profitability will depend on, among other things, the development, regulatory approval, and commercialization of its pipeline assets, and the potential receipt and sale of any priority review vouchers it receives.

Uses of Liquidity

The Company uses cash to primarily fund the ongoing development of our research and development pipeline assets and costs associated with its organizational infrastructure.

Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2022 and 2021 (in thousands):

	Six Months Ended June 30,	
	2022	2021
Net cash (used in) provided by:		
Operating activities	$ (28,537)	$ (37,503)
Investing activities	(56)	(21)
Financing activities	(14,781)	59,043
Net (decrease) increase in cash and cash equivalents	$ (43,374)	$ 21,519

Net cash used in operating activities

Net cash used in operating activities was $28.5 million for the six months ended June 30, 2022, and consisted primarily of a net loss of $35.0 million and non-cash adjustments to reconcile net loss to net cash used in operating activities including stock-based compensation of $6.0 million and the $1.0 million reserve on the other long-term asset due to the full reserve on the Aytu receivable due December 2024. Additionally, changes in net liabilities decreased by $1.3 million. The decrease was mainly driven by a $3.5 million decrease in accrued expenses and a $1.2 million decrease in accounts payable, partially offset by a $2.4 million decrease in other receivables, primarily due to the receipt of $2.2 million from Aytu in the first quarter of 2022.

Net cash used in operating activities was $37.5 million for the six months ended June 30, 2021 and consisted primarily of a net loss of $47.8 million. Changes in net liabilities increased $4.6 million, mainly driven by a $4.9 million increase in accrued expenses and a $1.2 million decrease in other receivables, partially offset by increased accounts receivable of $1.9 million. In April 2021, the Company paid the $10.0 million upfront license fee related to the expanded indication license agreement for AVTX-002 with KKC.

Net cash used in investing activities

Net cash used in investing activities was minimal for the six months ended June 30, 2022 and June 30, 2021 and consistent primarily of the purchase of property and equipment.

Net cash used in financing activities

Net cash used in financing activities for the six months ended June 30, 2022 consisted of the $14.8 million partial prepayment applied to principal under the Loan Agreement.

Net cash provided by financing activities was $59.0 million for the six months ended June 30, 2021 and consisted primarily of net proceeds of $37.7 million from an underwritten public offering. Armistice participated in the offering by purchasing approximately 0.5 million shares of common stock, on the same terms as all other investors. Additionally, Avalo received net proceeds of $19.6 million from the Loan Agreement in June 2021.

Critical Accounting Policies, Estimates, and Assumptions

This Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q, which have been prepared in accordance with GAAP. In preparing the financial statements in conformity with GAAP, the Company makes estimates and assumptions that have an impact on assets, liabilities, revenue and expenses reported. These estimates can also affect supplemental information disclosed by us, including information about contingencies, risk, and financial condition. In our unaudited condensed consolidated financial statements, estimates are used for, but not limited to, revenue recognition, cost of product sales, stock-based compensation, fair value measurements, cash flows used in management's going concern assessment, income taxes, goodwill, and other intangible assets and clinical trial accruals. The Company believes, given current facts and circumstances, that our estimates and assumptions are reasonable, adhere to GAAP and are consistently applied. Inherent in the nature of an estimate or assumption is the fact that actual results may differ from estimates, and estimates may vary as new facts and circumstances arise. Our most critical accounting estimates and assumptions are included in our Annual Report on Form 10-K for the year ended December 31,

2021 filed with the SEC on March 2, 2022. There have been no material changes to our critical accounting policies during the six months ended June 30, 2022.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements, as defined by applicable SEC rules and regulations.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Interest Rate Risk

As a smaller reporting company, we are not required to provide the information required by this Item.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) and Rule 15d-15(b) of the Securities Exchange Act of 1934, as amended, or the Exchange Act, our management, including our principal executive officer and our principal financial officer, conducted an evaluation as of the end of the period covered by this Quarterly Report on Form 10-Q of the effectiveness of the design and operation of our disclosure controls and procedures. In designing and evaluating our disclosure controls and procedures, our 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. Based on that evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of the period covered by this Quarterly Report on Form 10-Q.

Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in management's evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully consider the factors discussed in Part I, "Item 1A. Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2021, filed with the SEC on March 2, 2022, which could materially affect our business, financial condition, or future results. Our risk factors as of the date of this Quarterly Report on Form 10-Q have not changed materially from those described in the Form 10-K referenced above. The risks described in the Form 10-K referenced above are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition, or future results of operations and the trading price of our common stock.

Item 6. Exhibits.

Exhibit Number	Description of Exhibit
3.1	Certificate of Amendment to the Company's Amended and Restated Certificate of Incorporation, as amended, dated July 5, 2022 and effective July 7, 2022 (incorporated by reference to Exhibit 3.1 to the Form 8-K filed on July 7, 2022.
31.1+	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2+	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1+†	Certification of Principal Executive Officer and Principal Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Condensed Consolidated Balance Sheets (Unaudited) as of June 30, 2022 and December 31, 2021; (ii) Condensed Consolidated Statements of Operations (Unaudited) for the Three and Six Months Ended June 30, 2022 and 2021; (iii) Condensed Consolidated Statements of Cash Flows (Unaudited) for the Six Months Ended June 30, 2022 and 2021; (iv) Condensed Consolidated Statements of Changes in Stockholders' (Deficit) Equity (Unaudited) for the Three and Six Months Ended June 30, 2022 and 2021; and (v) Notes to Unaudited Financial Statements.
104	Cover Page Interactive Data File, formatted in XBRL (included in Exhibit 101).

+ Filed herewith.

† This certification is being furnished solely to accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

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.

Avalo Therapeutics, Inc.

Date: August 4, 2022

/s/ Christopher Sullivan

Christopher Sullivan

Chief Financial Officer

(on behalf of the registrant and as the registrant's principal financial officer)

Exhibit 31.1

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

I, Garry Neil, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avalo Therapeutics, 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.

Date: August 4, 2022

/s/ Garry Neil, M.D.
Garry Neil, M.D.
Chief Executive Officer
(Registrant's principal executive officer)

Exhibit 31.2

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

I, Christopher Sullivan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Avalo Therapeutics, 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.

Date: August 4, 2022

/s/ Christopher Sullivan
Christopher Sullivan
Chief Financial Officer
(Registrant's principal financial officer)

Exhibit 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
AND PRINCIPAL 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 Avalo Therapeutics, Inc. (the "Registrant") on Form 10-Q for the period ended June 30, 2022 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Garry Neil, Chief Executive Officer of the Registrant, and I, Christopher Sullivan, Chief Financial Officer of the Registrant, each hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

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

Date: August 4, 2022

/s/ Garry Neil, M.D.
Garry Neil, M.D.
Chief Executive Officer
(Registrant's principal executive officer)

Date: August 4, 2022

/s/ Christopher Sullivan
Christopher Sullivan
Chief Financial Officer
(Registrant's principal financial officer)

The foregoing certifications are not deemed filed with the Securities and Exchange Commission for purposes of section 18 of the Securities Exchange Act of 1934, as amended (Exchange Act), and are not to be incorporated by reference into any filing of Cerecor Inc. under the Securities Act of 1933, as amended, or the Exchange Act, whether made before or after the date hereof, regardless of any general incorporation language in such filing.