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

FORM 8-K

CURRENT REPORT
Pursuant to Section 13 or 15(d) of
the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): September 13, 2023

AVALO THERAPEUTICS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation)

001-37590
(Commission File Number)

45-0705648
(IRS Employer Identification No.)

540 Gaither Road, Suite 400, Rockville, Maryland 20850

(Address of principal executive offices) (Zip Code)

Registrant's Telephone Number, Including Area Code: (410) 522-8707

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$0.001 Par Value	AVTX	Nasdaq Capital Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

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.

Item 1.01. Entry into a Material Definitive Agreement.

As previously disclosed, Avalo Therapeutics, Inc. (the “Company”), entered into a Venture Loan and Security Agreement (as amended, from time to time, the “Note”), issued on June 4, 2021, to certain institutional investors (the “Holders”). As of July 20, 2023, the Holders asserted that a default and event of default has occurred due to a material adverse change in the Company’s business.

Also, as previously disclosed, on July 20, 2023, the Company entered into a Forbearance Agreement, which was subsequently amended by the Second Forbearance Agreement on August 14, 2023 (together, the “Prior Forbearance Agreements”) with the Holders. On September 13, 2023, the Company and the Holders entered into a Third Forbearance Agreement (the “Third Forbearance Agreement”) to, among other things, further extend the forbearance period until October 15, 2023. In exchange for the Holders agreeing to enter the Third Forbearance Agreement, the Company agreed to amend the Note to grant to the Holders a security interest in the Company’s owned patents and trademarks (the “Note Amendment”).

Except as set forth above, all other terms, conditions and rights of the Prior Forbearance Agreements, the Note, and the related transaction documents remain in full force and effect, which were described in the Current Report on Form 8-K filed on June 8, 2021, the Current Report on Form 8-K filed on July 21, 2023, and the Current Report on Form 8-K filed on August 14, 2023.

The foregoing descriptions of the Third Forbearance Agreement and the Note Amendment do not purport to be complete and are subject to, and qualified by, the full texts of such documents, copies of which are filed as Exhibit 10.1 and Exhibit 10.2, respectively, and are incorporated by reference herein.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits:

Exhibit No.	Description
10.1	<u>Third Forbearance Agreement, dated as of September 13, 2023, between Avalo Therapeutics, Inc. and Horizon Credit II LLC, Horizon Funding Trust 2019-1, Horizon Funding I, LLC, Powerscourt Investments XXV Trust, and Horizon Technology Finance Corporation.</u>
10.2	<u>First Amendment to Loan Agreement, dated as of September 13, 2023, between Avalo Therapeutics, Inc. and Horizon Credit II LLC, Horizon Funding Trust 2019-1, Horizon Funding I, LLC, Powerscourt Investments XXV Trust, and Horizon Technology Finance Corporation.</u>
104	The cover pages of this Current Report on Form 8-K, formatted in Inline XBRL.

SIGNATURE

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 hereunto duly authorized.

AVALO THERAPEUTICS, INC.

Date: September 13, 2023

By: /s/ Christopher Sullivan

Christopher Sullivan
Chief Financial Officer

THIRD FORBEARANCE AGREEMENT

This THIRD FORBEARANCE AGREEMENT (this “**Agreement**”) is made as of September 13, 2023, by and among (i) Avalo Therapeutics, Inc. (f/k/a Cerecor Inc.), a Delaware corporation (the “**Borrower**”), (ii) Horizon Credit II LLC, Horizon Funding Trust 2019-1, Horizon Funding I, LLC, and Powerscourt Investments XXV Trust, as lenders (collectively, the “**Lenders**”), and (iii) Horizon Technology Finance Corporation, as collateral agent for the Lenders (in such capacity, the “**Collateral Agent**” and collectively with the Lenders, the “**Secured Parties**”). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement (as defined below).

WHEREAS, on June 4, 2021, the Borrower, the Lenders, and the Collateral Agent entered into a Venture Loan and Security Agreement (as the same may be amended, restated, supplemented or modified from time to time, the “**Loan Agreement**”);

WHEREAS, pursuant to the Loan Agreement, the Lenders provided Loans to the Borrower in the aggregate original principal amount of \$35,000,000, as evidenced by a (i) Secured Promissory Note (Loan A) in the original principal amount of \$5,000,000, executed by the Borrower and other parties thereto in favor of Horizon Credit II LLC, dated as of June 4, 2021, (ii) Secured Promissory Note (Loan B) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon Funding Trust 2019-1, dated as of June 4, 2021, (iii) Secured Promissory Note (Loan C) in the original principal amount of \$2,500,000, executed by the Borrower in favor of Horizon Funding I, LLC, dated as of June 4, 2021, (iv) Secured Promissory Note (Loan D) in the original principal amount of \$7,500,000, executed by the Borrower in favor of Powerscourt Investments XXV Trust, dated as of June 4, 2021, (v) Secured Promissory Note (Loan E) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon Funding I LLC, dated as of July 30, 2021, (vi) Secured Promissory Note (Loan F) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon Credit II LLC, dated as of July 30, 2021, (vii) Secured Promissory Note (Loan G) in the original principal amount of \$2,500,000, executed by the Borrower in favor of Horizon Credit II LLC, dated as of September 29, 2021, and (viii) Secured Promissory Note (Loan H) in the original principal amount of \$2,500,000, executed by the Borrower in favor of Horizon Credit II LLC, dated as of September 29, 2021;

WHEREAS, the Lenders have asserted that as of the date hereof a Default and Event of Default has occurred under Section 8.4 of the Loan Agreement, due to the occurrence of events prior to the date of this Agreement that constitute a material adverse change in the Borrower’s business (the “**MAC Default**”);

WHEREAS, the Secured Parties would be entitled to exercise their rights and remedies under the Loan Agreement as a result of the MAC Default;

WHEREAS, on July 20, 2023, the Secured Parties entered into a Forbearance Agreement (the “**Initial Forbearance Agreement**”), whereby the Secured Parties agreed, among other things, to forbear from exercising their rights and remedies in respect of the MAC Default until, at the latest, August 15, 2023 (the “**Initial Forbearance Termination Date**”);

WHEREAS, on August 14, 2023, the Secured Parties entered into a Second Forbearance Agreement (the “**Second Forbearance Agreement**”), whereby the Secured Parties agreed, among other things, to extend the Initial Forbearance Termination Date until, at the latest, September 15, 2023 (the “**Extended Forbearance Termination Date**”);

WHEREAS, the Borrower has requested that the Secured Parties, among other things, further extend the Extended Forbearance Termination Date to October 15, 2023 (the “**Second Extended Forbearance Termination Date**”); and

WHEREAS, subject to the terms and conditions of this agreement, and the covenants of the Borrower set forth herein, the Secured Parties have agreed as provided herein.

NOW, THEREFORE, in consideration of the promises herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Event of Default. The Borrower agrees that the MAC Default constitutes an Event of Default under the Loan Agreement. The Borrower represents and warrants that, except for the MAC Default, no Default or Event of Default has occurred under the Loan Agreement that has not been waived by the Secured Parties. The Borrower acknowledges and agrees that, as a result of the occurrence of the MAC Default, each Secured Party has the immediate and unrestricted right to accelerate the maturity of the Obligations and to exercise any and all rights and remedies available to it under the Loan Documents and/or at law or in equity.

2. Agreement to Forbear. Each Secured Party hereby agrees to forbear from exercising remedies in respect of the MAC Default through and until the earliest to occur of (a) the Second Extended Forbearance Termination Date, (b) the occurrence of any Default or Event of Default other than the MAC Default or (c) a breach of any provision of this Agreement (such period the “**Second Extended Forbearance Period**”). At the end of the Second Extended Forbearance Period, all agreements hereunder to forbear shall terminate automatically and without further notice or action, and be of no force and effect, and the effect of such termination shall be to permit each Secured Party to immediately exercise any and all rights and remedies available to it under the Loan Agreement or any other Loan Document.

3. Extension of Extended Forbearance Period. In the sole discretion of the Secured Parties and without obligation, at the request of the Borrower, after the Second Extended Forbearance Termination Date, the Secured Parties may renew or extend the Second Extended Forbearance Period or grant additional forbearance periods.

4. Representations and Warranties of Borrower. The Borrower hereby represents and warrants to the Secured Parties as of the date of this Agreement:

a. The Borrower is a corporation duly organized and validly existing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state or country in which the conduct of its business or its ownership of properties requires that it be so qualified, except where the failure to do so could not reasonably be expected to have a material adverse effect on the Borrower’s business.

b. The Borrower has all necessary corporate power and authority to execute, deliver, and perform in accordance with the terms thereof, this Agreement. The Borrower has all requisite corporate power and authority to own and operate its properties and to carry on its business as now conducted.

c. The execution and delivery of this Agreement, and the consummation of the transactions contemplated herein have each been duly authorized and delivered by all necessary action on the part of the Borrower and constitute legal, valid and binding obligations of the Borrower, enforceable in accordance with its terms, except as the enforceability thereof

may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors' rights or by general principles of equity.

d. The Borrower represents and warrants that, except for the MAC Default, no Default or Event of Default has occurred and is continuing under the Loan Documents.

5. Borrower's Covenant. The Borrower covenants and agrees, for the benefit of the Collateral Agent and the Lenders, that commencing as of the date of this Agreement, the Borrower shall maintain, at all times, cash on deposit in deposit accounts subject to an Account Control Agreement in favor of the Collateral Agent in an amount not less than Three Million Dollars (\$3,000,000).

6. Acknowledgments and Agreements.

a. The Borrower acknowledges, agrees, and represents and warrants that, immediately prior to the effective date of this Agreement, pursuant to the Loan Documents, the Borrower is legally and validly indebted to the Lenders in respect of the Loans in the outstanding principal amount of Thirteen Million Sixty-Seven Thousand Four Hundred Sixty-Nine and 62/100 Dollars (\$13,067,469.62), plus interest, fees, and other amounts accrued and accruing thereon or related thereto, including, without limitation, Lenders' Expenses related to the MAC Default and this Agreement, the Loan A Final Payment, the Loan B Final Payment, the Loan C Final Payment, the Loan D Final Payment, the Loan E Final Payment, the Loan F Final Payment, the Loan G Final Payment, and the Loan H Final Payment.

b. The Borrower acknowledges, affirms and agrees that the Secured Parties hold valid, perfected, enforceable, first priority security interests (except for Permitted Liens) in the Collateral as security for all Obligations under the Loan Documents (including, for the avoidance of doubt, all Obligations arising from or related to this Agreement).

c. The Borrower acknowledges and agrees that it has no defense, claim, offset, abatement, or deduction to any Obligations and no cause of action, claim, defense, or counter-claim against any Secured Party in any way relating to the Loan Documents, any transactions contemplated thereby, or any Secured Party's actions thereunder.

d. The Borrower acknowledges and agrees that (i) any failure of the Borrower to perform the covenant set forth in Section 5 of this Agreement shall constitute an immediate "Event of Default" under the Loan Agreement and (ii) upon the occurrence of any such Event of Default, the Secured Parties shall have the immediate and unrestricted right to exercise any and all rights and remedies available under the Loan Documents and/or at law and in equity.

e. The Borrower acknowledges, agrees, and affirms that (i) this Agreement shall constitute a "Loan Document" for all purposes, including, without limitation, the definitions of "Obligations" and "Lenders' Expenses;" (ii) the definition of "Obligations" shall include all amounts, obligations, covenants, and duties owing by the Borrower to the Secured Parties, of any kind and description, under this Agreement; and (iii) the definition of "Lenders' Expenses" shall include the costs and expenses set forth in Section 9 hereof.

f. The Borrower hereby ratifies and confirms all terms and provisions of this Agreement, the Loan Agreement, and the other Loan Documents and all other documents, instruments, or agreements executed in connection therewith and except as expressly set forth herein, agrees that all of such terms and provisions remain in full force and effect and have not been modified or amended in any respect.

7. Release. In consideration of each Secured Party's willingness to enter into this Agreement, the Borrower does hereby release, remise and forever discharge each Secured

Party and its current and former officers, directors, managers, partners, members, employees, agents, attorneys, affiliates, advisors, consultants, shareholders and representatives (collectively, the “**Released Parties**”) of and from (and covenants not to sue the Released Parties for) any and all debts, demands, actions, causes of action, suits, accounts, covenants, contracts, agreements, claims, rights, damages, losses or liabilities of any nature whatsoever, whether at law or in equity, anticipated or unanticipated, fixed or contingent, known or unknown, which arose at any time prior to the date hereof, or which hereafter could arise based on any act, fact, transaction, cause, matter, or thing which occurred prior to the date hereof related to the Borrower, the Loans, the Loan Documents, or any documents or instruments delivered pursuant thereto or the transactions governed thereby or the dealings of the Borrower with the Released Parties with respect thereto. The Borrower hereby expressly waives any and all rights it may have against the Released Parties under Section 1542 of the California Civil Code (“**Section 1542**”) or any similar law, and the Borrower acknowledges that it may not invoke in any manner any claims released in this Agreement. The Borrower is aware that Section 1542 provides as follows: “[a] general release does not extend to claims which the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor or released party.”

8 . Condition to Effectiveness. Collateral Agent’s and Lenders’ agreement herein is expressly conditioned upon Borrower executing and delivering to Collateral Agent and Lenders (i) an amendment to the Loan Agreement which amendment shall revise the definition of Collateral to grant to Collateral Agent and Lenders a security interest in and to Borrower’s Intellectual Property, (ii) a Grant of Security Interest – Patents, and (iii) a Grant of Security Interest – Trademarks, each of which shall be in form and substance reasonably acceptable to Collateral Agent and Lenders.

9. Fees and Expenses. The Borrower agrees to pay (a) concurrently with the execution of this Agreement a forbearance fee to the Secured Parties in an amount equal to Five Thousand Dollars (\$5,000) and (b) on demand, all reasonable, documented costs and expenses of the Secured Parties (including, without limitation, reasonable, documented attorneys’ fees and expenses) incurred in connection with (i) the preparation, negotiation, execution, delivery, and administration of this Agreement, and (ii) the MAC Default.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut, other than legal principles related to conflicts of laws.

11. No Waiver. No course of dealing heretofore or hereafter between the Borrower and any Secured Party, and no failure or delay on the part of any Secured Party in exercising any rights or remedies under the Loan Documents or existing at law or in equity, shall operate as a waiver of any rights or remedies of any Secured Party with respect to the Obligations, and no single or partial exercise of any rights or remedies hereunder shall operate as a waiver or preclusion to the exercise of any other rights or remedies that any Secured Party may have in regard to the Obligations.

12. Modification. This Agreement may not be modified in any manner, except by written agreement signed by the Borrower and the Secured Parties.

13. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

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

15. Good Faith Negotiations. The Borrower acknowledges that this Agreement is the result of good faith negotiations, that it has carefully considered all of its alternatives and that it has entered into this Agreement without duress or coercion of any kind.

16. Entire Agreement. This Agreement constitutes the entire understanding and agreement among the parties hereto and supersedes any prior or contemporaneous written or oral understanding with respect to the subject matter hereof.

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IN WITNESS WHEREOF, this Third Forbearance Agreement has been duly executed by each of the undersigned as of the day and year first set forth above.

BORROWER

AVALO THERAPEUTICS, INC.

By: /s/ Garry Neil
Name: Garry Neil
Title: Chief Executive Officer

[Signature Page to Third Forbearance Agreement - Avalo]

COLLATERAL AGENT:

HORIZON TECHNOLOGY FINANCE CORPORATION

By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Executive Vice President, Chief Operating Officer and Chief Investment Officer

LENDERS:

HORIZON CREDIT II LLC, as a Lender

By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Executive Vice President, Chief Operating

HORIZON FUNDING TRUST 2019-1, as a Lender

By: Horizon Technology Finance Corporation, its agent
By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Executive Vice President, Chief Operating

HORIZON FUNDING I, LLC, as a Lender

By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Manager

POWERSCOURT INVESTMENTS XXV, TRUST,
as a Lender
By: 1485 Management, LLC, as Trust's Agent

/s/ Glenn Guskowski

Name: Glenn Guskowski
Title: Authorized Signatory

[Signature Page to Third Forbearance Agreement - Avalo]

**FIRST AMENDMENT TO
VENTURE LOAN AND SECURITY AGREEMENT**

This FIRST AMENDMENT TO VENTURE LOAN AND SECURITY AGREEMENT (this “**Agreement**”) is made as of September 13, 2023, by and among Avalo Therapeutics, Inc. (f/k/a Cerecor Inc.), a Delaware corporation (the “**Borrower**”), Horizon Credit II LLC, a Delaware limited liability company (“**HCII**”), as an assignee of Horizon Technology Finance Corporation (“**Horizon**”), Horizon Funding Trust 2019-1, a Delaware statutory trust (“**Horizon Trust**”), as an assignee of Horizon, Horizon Funding I, LLC, a Delaware limited liability company (“**HFI**”), as an assignee of Horizon, and Powerscourt Investments XXV Trust, a Delaware statutory trust (“**Powerscourt Trust**” and collectively with HCII, Horizon Trust and HFI, the “**Lenders**”) as assignee of Powerscourt Investments XXV, LP, and Horizon as collateral agent for the Lenders (in such capacity, the “**Collateral Agent**” and collectively with the Lenders, the “**Secured Parties**”). Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement (as defined below).

WHEREAS, on June 4, 2021, the Borrower, the Lenders, and the Collateral Agent entered into a Venture Loan and Security Agreement (as the same may be amended, restated, supplemented or modified from time to time, the “**Loan Agreement**”);

WHEREAS, pursuant to the Loan Agreement, the Lenders provided Loans to the Borrower in the aggregate original principal amount of \$35,000,000, as evidenced by a (a) Secured Promissory Note (Loan A) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon, dated as of June 4, 2021 (the “**Loan A Note**”), (b) Secured Promissory Note (Loan B) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon, dated as of June 4, 2021 (the “**Loan B Note**”), (c) Secured Promissory Note (Loan C) in the original principal amount of \$2,500,000, executed by the Borrower in favor of Horizon, dated as of June 4, 2021 (the “**Loan C Note**”), (d) Secured Promissory Note (Loan D) in the original principal amount of \$7,500,000, executed by the Borrower in favor of Powerscourt Investments XXV, LP, dated as of June 4, 2021 (the “**Loan D Note**”), (e) Secured Promissory Note (Loan E) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon, dated as of July 30, 2021 (the “**Loan E Note**”), (f) Secured Promissory Note (Loan F) in the original principal amount of \$5,000,000, executed by the Borrower in favor of Horizon, dated as of July 30, 2021 (the “**Loan F Note**”), (g) Secured Promissory Note (Loan G) in the original principal amount of \$2,500,000, executed by the Borrower in favor of Horizon, dated as of September 29, 2021 (the “**Loan G Note**”), (h) Secured Promissory Note (Loan H) in the original principal amount of \$2,500,000, executed by the Borrower in favor of Horizon, dated as of September 29, 2021 (the “**Loan H Note**”), and collectively with the Loan A Note, the Loan B Note, the Loan C Note, the Loan D Note, the Loan E Note, the Loan F Note and the Loan G Note, the “**Notes**”), and (i) (g) Collateral Agent and Lenders have been granted a security interest in substantially all assets of Borrower, except with respect to Borrower’s Intellectual Property;

WHEREAS, Horizon has assigned all of its right, title and interest in and to each of (a) the Loan A Note, (b) the Loan F Note, (c) the Loan G Note and the Loan H Note to HCII;

WHEREAS, Horizon has assigned all of its right, title and interest in and to the Loan B Note to Horizon Trust;

WHEREAS, Horizon has assigned all of its right, title and interest in and to the Loan C Note to HFI;

WHEREAS, Powerscourt Investments XXV, LP has assigned all of its right, title and interest in and to the Loan D Note to Powerscourt Trust;

WHEREAS, Horizon has assigned all of its right, title and interest in and to the Loan E Note to HFI;

WHEREAS, the Secured Parties and Borrower are party to that certain Second Forbearance Agreement dated as of August 14, 2023 (the “**Forbearance Agreement**”), pursuant to which the Lenders have asserted that, as of such date, a Default and Event of Default has occurred under Section 8.4 of the Loan Agreement, due to the occurrence of events that constitute a material adverse change in the Borrower’s business (the “**Specified Default**”), and, pursuant to which Forbearance Agreement, the Secured Parties agreed to forbear from exercising their rights and remedies in respect of the Specified Default until, at the latest, September 15, 2023; and

WHEREAS, the Secured Parties and Borrower desire to amend the Loan Agreement to revise the definition of Collateral to grant to Secured Parties a security interest in and to Borrower’s Intellectual Property.

NOW, THEREFORE, in consideration of the promises herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Definitions; Interpretation. Unless otherwise defined herein, all capitalized terms used herein and defined in the Loan Agreement shall have the respective meanings given to those terms in the Loan Agreement. Other rules of construction set forth in the Loan Agreement, to the extent not inconsistent with this Agreement, apply to this Agreement and are hereby incorporated by reference.

2. Confirmation. Borrower hereby acknowledges and agrees that: (i) the Loan Agreement sets forth the legal, valid, binding and continuing obligations of Borrower to Secured Parties, (ii) the Obligations to Secured Parties under the Loan Agreement are secured by validly perfected security interests in the Collateral, and (iii) Borrower does not have any cause of action, claim, defense or set-off against any Secured Party in any way regarding or relating to the Loan Agreement or any Secured Party’s actions thereunder and to the extent any such cause of action, claim, defense or set-off ever existed, it is waived and Secured Parties are released from any claims of Borrower. Borrower represents and warrants that, other than the Specified Default, no Default or Event of Default has occurred under the Loan Agreement. Secured Parties and Collateral Agent hereby acknowledge and agree that the Loan Agreement sets forth the legal, valid, binding and continuing obligations of Lenders and Collateral Agent, respectively, to Borrower.

3. Amendments to Loan Agreement.

(a) Borrower and Secured Parties hereby agree that Section 4.1 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

“4.1 Grant of Security Interests. Each Co-Borrower grants to Collateral Agent and each Lender a valid, continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt, full and complete payment of any and all Obligations and in order to secure prompt, full and complete performance by each Co-Borrower of each of its covenants and duties under each of the Loan Documents (other than the Warrants). The “Collateral” shall mean and include all right, title, interest, claims and demands of each Co-Borrower in the following:

(a) All goods (and embedded computer programs and supporting information included within the definition of “goods” under the Code) and equipment now owned or hereafter acquired, including all laboratory equipment, computer equipment, office

equipment, machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory now owned or hereafter acquired, including all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of any Co-Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and each Co-Borrower's books relating to any of the foregoing;

(c) All contract rights and general intangibles (including Intellectual Property), now owned or hereafter acquired, including (except to the extent included within the definition of Intellectual Property) goodwill, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, software, computer programs, computer disks, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payment intangibles, commercial tort claims, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, and other forms of payment obligations owing to any Co-Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by any Co-Borrower (subject, in each case, to the contractual rights of third parties to require funds received by any Co-Borrower to be expended in a particular manner), whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefor, as well as all merchandise returned to or reclaimed by any Co-Borrower and each Co-Borrower's books relating to any of the foregoing;

(e) All documents, cash, deposit accounts, letters of credit and letters of credit rights (whether or not the letter of credit is evidenced by a writing) and other supporting obligations, certificates of deposit, instruments, promissory notes, chattel paper (whether tangible or electronic) and investment property, including all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts and commodity accounts, and all financial assets held in any securities account or otherwise, wherever located, now owned or hereafter acquired and each Co-Borrower's books relating to the foregoing; and

(f) To the extent not covered by clauses (a) through (e), all other personal property of each Co-Borrower, whether tangible or intangible, and any and all rights and interests in any of the above and the foregoing and, any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof, including insurance, condemnation, requisition or similar payments and proceeds of the sale or licensing of Intellectual Property."

(b) Borrower and Secured Parties hereby agree that Section 4.7 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

"4.7 Intellectual Property. Each Co-Borrower shall promptly notify each Lender and Collateral Agent on or before the federal registration or filing by any Co-Borrower of any patent or patent application, or trademark or trademark application, or copyright or copyright application and shall promptly execute and deliver to each Lender and Collateral Agent any grants of security interests in same, in form reasonably acceptable to Collateral Agent, to file with the United States Patent and Trademark Office or the United States Copyright Office, as applicable."

(c) Borrower and Secured Parties hereby agree that Section 4.8 of the Loan Agreement is hereby deleted in its entirety and replaced with the following:

“4.8 Protection of Intellectual Property. Each Co-Borrower shall:

(a) to the extent of each Co-Borrower’s right to do so, protect, defend and maintain the validity and enforceability of its Intellectual Property that is material to the business of any Co-Borrower and promptly advise Collateral Agent in writing of material infringements thereof;

(b) not consent to any Intellectual Property material to any Co-Borrower’s business being abandoned, forfeited or dedicated to the public without each Lender’s written consent;

(c) provide written notice to Collateral Agent within ten (10) days of entering or becoming bound by any Restricted License (other than over-the-counter software that is commercially available to the public); and

(d) take such commercially reasonable steps as Collateral Agent or any Lender requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License to be deemed “Collateral” and for Collateral Agent and each Lender to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Collateral Agent and each Lender to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Collateral Agent’s or such Lender’s rights and remedies under this Agreement and the other Loan Documents.”

4. Representations and Warranties of Borrower. Borrower hereby represents and warrants to the Secured Parties as of the date of this Agreement:

(a) Borrower is a corporation duly organized and validly existing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state or country in which the conduct of its business or its ownership of properties requires that it be so qualified, except where the failure to do so could not reasonably be expected to have a material adverse effect on the Borrower’s business.

(b) Borrower has all necessary corporate power and authority to execute, deliver, and perform in accordance with the terms thereof, this Agreement. Borrower has all requisite corporate power and authority to own and operate its properties and to carry on its business as now conducted.

(c) The execution and delivery of this Agreement, and the consummation of the transactions contemplated herein have each been duly authorized and delivered by all necessary action on the part of Borrower and constitute legal, valid and binding obligations of Borrower, enforceable in accordance with its terms, except as the enforceability thereof may be limited by bankruptcy, insolvency or other similar laws of general application relating to or affecting the enforcement of creditors’ rights or by general principles of equity.

(d) At and as of the date of this Agreement, and both prior to and after giving effect to this Agreement, all of the representations and warranties contained in the Loan Agreement are true and correct in all material respects (except with respect to any such representation or warranty which is already qualified by a materiality qualifier, in which case such representation or warranty shall be true and correct in all respects, and where such representations and warranties expressly relate to an earlier date, in which case such

representations and warranties are true and correct in all material respects as of such earlier date).

(e) Borrower represents and warrants that, except for the Specified Default, no Default or Event of Default has occurred and is continuing under the Loan Documents.

5. Additional Documents. Borrower shall, simultaneously with the execution and delivery of this Agreement, execute and deliver to Secured Parties a (i) Grant of Security Interest – Patents and (ii) Grant of Security Interest – Trademarks, each in form and substance reasonably acceptable to Secured Parties.

6. Fees and Expenses. Borrower shall reimburse Horizon for its legal fees incurred in connection with this Agreement, in the sum of Five Thousand Dollars (\$5,000).

7. Effect of Agreement. On and after the date hereof, each reference to the Loan Agreement in the Loan Agreement or in any other document shall mean the Loan Agreement as amended by this Agreement. Except as expressly provided hereunder, the execution, delivery and effectiveness of this Agreement shall not operate as a waiver of any right, power, or remedy of Lenders, nor constitute a waiver of any provision of the Loan Agreement. Except to the limited extent expressly provided herein, nothing contained herein shall, or shall be construed to (nor shall Borrower ever argue to the contrary) (i) modify the Loan Agreement or any other Loan Document, (ii) modify, waive, impair, or affect any of the covenants, agreements, terms, and conditions thereof, or (iii) waive the due keeping, observance and/or performance thereof, each of which is hereby ratified and confirmed by Borrower. Except as amended above, the Loan Agreement remains in full force and effect.

8. Headings. Headings in this Agreement are for convenience of reference only and are not part of the substance hereof.

9. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Connecticut without reference to conflicts of law rules.

10. Counterparts. This Agreement may be executed in any number of counterparts, including by electronic or facsimile transmission, each of which when so delivered shall be deemed an original, but all such counterparts taken together shall constitute but one and the same instrument.

11. Integration. This Agreement and the Loan Documents constitute and contain the entire agreement of Borrower and Lenders with respect to their respective subject matters, and supersede any and all prior agreements, correspondence and communications.

[the remainder of this page intentionally left blank]

IN WITNESS WHEREOF, this Third Forbearance Agreement has been duly executed by each of the undersigned as of the day and year first set forth above.

BORROWER

AVALO THERAPEUTICS, INC.

By: /s/ Garry Neil
Name: Garry Neil
Title: Chief Executive Officer

[Signature Page to First Amendment to Venture Loan and Security Agreement]

COLLATERAL AGENT:

HORIZON TECHNOLOGY FINANCE CORPORATION

By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Chief Operating Officer

LENDERS:

HORIZON CREDIT II LLC, as a Lender

By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Chief Operating Officer

HORIZON FUNDING TRUST 2019-1, as a Lender

By: Horizon Technology Finance Corporation, its agent
By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Chief Operating Officer

HORIZON FUNDING I, LLC, as a Lender

By: /s/ Daniel S. Devorsetz
Name: Daniel S. Devorsetz
Title: Manager

POWERSCOURT INVESTMENTS XXV, TRUST,
as a Lender

By: 1485 Management, LLC, as Trust's Agent

/s/ Glenn Guskowski

Name: Glenn Guskowski

Title: Authorized Signatory

[Signature Page to First Amendment to Venture Loan and Security Agreement]