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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 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 September 30, 2016

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number: 000-55209

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**Algodon Wines & Luxury Development Group, Inc.**

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of  
incorporation or organization)

52-2158952

(I.R.S. Employer  
Identification No.)

135 Fifth Avenue, 10th Floor  
New York, NY 10010  
(Address of principal executive offices)

212-739-7677  
(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files).  
Yes  No

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

Large accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company)

Accelerated filer

Smaller reporting company

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 November 11, 2016, there were 42,452,743 shares of Algodon Wines & Luxury Development Group, Inc. common stock, \$0.01 par value issued and 42,448,332 outstanding.

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**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
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**PART I FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS**

|  | <u>September 30, 2016</u><br><u>(unaudited)</u> | <u>December 31, 2015</u> |
|--|---|--------------------------|
| <b>Assets</b>  |   |                          |
| Current Assets   |   |                          |
| Cash   | \$ 589,935                                      | \$ 110,645               |
| Accounts receivables, net  | 185,269   | 232,789                  |
| Accounts receivables - related parties, net  | 504,578   | 333,911                  |
| Advances and loans to registered representatives, net  | 470,786   | 189,612                  |
| Inventory  | 1,182,668                                       | 1,184,268                |
| Prepaid expenses and other current assets, net   | 518,813   | 602,800                  |
| Total Current Assets   | <u>3,452,049</u>                                | <u>2,654,025</u>         |
| Property and equipment, net  | 3,901,443                                       | 4,454,969                |
| Prepaid foreign taxes, net   | 224,042   | 360,015                  |
| Investment - related parties   | 59,944  | 127,202                  |
| Deposits   | 61,284  | 61,284                   |
| Total Assets   | <u>\$ 7,698,762</u>                             | <u>\$ 7,657,495</u>      |
| <b>Liabilities and Stockholders' Equity</b>  |   |                          |
| Current Liabilities  |   |                          |
| Accounts payable   | \$ 401,228                                      | \$ 585,095               |
| Accrued expenses   | 1,767,209                                       | 1,869,808                |
| Deferred revenue   | 1,653,217                                       | 1,384,317                |
| Convertible and non-convertible debt obligations   | 187,500   | 287,500                  |
| Other liabilities  | 12,954  | 4,488                    |
| Total Current Liabilities  | <u>4,022,108</u>                                | <u>4,131,208</u>         |
| Accrued expenses, non-current portion  | 344,770   | 399,119                  |
| Total Liabilities  | <u>4,366,878</u>                                | <u>4,530,327</u>         |
| <b>Commitments and Contingencies</b>   |   |                          |
| <b>Stockholders' Equity</b>  |   |                          |
| Series A convertible preferred stock, par value \$0.01 per share; 11,000,000 shares authorized; 902,670 shares available for issuance; 0 shares issued and outstanding at September 30, 2016 and December 31, 2015 | -   | -                        |
| Common stock, par value \$0.01 per share; 80,000,000 shares authorized; 42,140,243 and 38,879,333 shares issued and 42,135,832 and 38,874,922 shares outstanding as of September 30, 2016 and December 31, 2015    | 421,402   | 388,793                  |
| Additional paid-in capital   | 78,221,255                                      | 69,933,147               |
| Accumulated other comprehensive loss   | (10,269,639)                                    | (9,591,274)              |
| Accumulated deficit  | (65,027,064)                                    | (57,589,428)             |
| Treasury stock, at cost, 4,411 shares at September 30, 2016 and December 31, 2015  | (14,070)  | (14,070)                 |
| Total Stockholders' Equity   | <u>3,331,884</u>                                | <u>3,127,168</u>         |
| Total Liabilities and Stockholders' Equity   | <u>\$ 7,698,762</u>                             | <u>\$ 7,657,495</u>      |

See Notes to the Condensed Consolidated Financial Statements

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(unaudited)**

|  | For the three months ended |                | For the nine months ended |                |
|--|----------------------------|----------------|---------------------------|----------------|
|  | September 30,              |                | September 30,             |                |
|  | 2016                       | 2015           | 2016                      | 2015           |
| <b>Sales</b>   | \$ 327,336                 | \$ 593,114     | \$ 1,109,796              | \$ 1,434,352   |
| Cost of sales  | (535,944)                  | (444,814)      | (1,275,191)               | (1,565,485)    |
| Gross (loss) profit  | (208,608)                  | 148,300        | (165,395)                 | (131,133)      |
| <b>Operating Expenses</b>                                    |                            |                |                           |                |
| Selling and marketing  | 2,347                      | 39,820         | 85,225                    | 176,674        |
| General and administrative                                   | 1,871,448                  | 1,673,925      | 5,969,582                 | 5,854,367      |
| Depreciation and amortization                                | 11,274                     | 53,594         | 63,347                    | 185,262        |
| Total operating expenses                                     | 1,885,069                  | 1,767,339      | 6,118,154                 | 6,216,303      |
| <b>Loss from Operations</b>                                  | (2,093,677)                | (1,619,039)    | (6,283,549)               | (6,347,436)    |
| <b>Other Expenses</b>  |                            |                |                           |                |
| Interest expense, net  | 53,025                     | 34,388         | 144,009                   | 187,924        |
| Common stock price modification                              | -                          | -              | 941,530                   | -              |
| Warrant modification expense                                 | -                          | -              | 68,548                    | -              |
| Total other expenses   | 53,025                     | 34,388         | 1,154,087                 | 187,924        |
| <b>Net Loss</b>  | \$ (2,146,702)             | \$ (1,653,427) | \$ (7,437,636)            | \$ (6,535,360) |
| <b>Net Loss Per Share:</b>                                   |                            |                |                           |                |
| Basic and Diluted  | \$ (0.05)                  | \$ (0.04)      | \$ (0.18)                 | \$ (0.18)      |
| <b>Weighted Average Number of Common Shares Outstanding:</b> |                            |                |                           |                |
| Basic and Diluted  | 41,708,005                 | 38,592,564     | 40,597,215                | 37,342,916     |

See Notes to the Condensed Consolidated Financial Statements

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS**  
**(unaudited)**

|  | For the three months ended |                       | For the nine months ended |                       |
|--|----------------------------|-----------------------|---------------------------|-----------------------|
|  | September 30,              |                       | September 30,             |                       |
|  | <u>2016</u>                | <u>2015</u>           | <u>2016</u>               | <u>2015</u>           |
| <b>Net Loss</b>                          | \$ (2,146,702)             | \$ (1,653,427)        | \$ (7,437,636)            | \$ (6,535,360)        |
| <b>Other Comprehensive Loss</b>          |                            |                       |                           |                       |
| Foreign currency translation adjustments | (142,900)                  | (115,931)             | (678,365)                 | (133,344)             |
| <b>Total Comprehensive Loss</b>          | <u>\$ (2,289,602)</u>      | <u>\$ (1,769,358)</u> | <u>\$ (8,116,001)</u>     | <u>\$ (6,668,704)</u> |

See Notes to the Condensed Consolidated Financial Statements

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016**  
(unaudited)

|   | <u>Common Stock</u> |                   | <u>Treasury Stock</u> |                    | <u>Additional<br/>Paid-In<br/>Capital</u> | <u>Accumulated<br/>Other<br/>Comprehensive<br/>Loss</u> | <u>Accumulated<br/>Deficit</u> | <u>Total<br/>Stockholders'<br/>Equity</u> |
|---|---------------------|-------------------|-----------------------|--------------------|---|---|--------------------------------|---|
|   | <u>Shares</u>       | <u>Amount</u>     | <u>Shares</u>         | <u>Amount</u>      |   |   |                                |   |
| <b>Balance - December 31, 2015</b>                            | 38,879,333          | \$ 388,793        | 4,411                 | \$ (14,070)        | \$ 69,933,147                             | \$ (9,591,274)  | \$ (57,589,428)                | \$ 3,127,168                              |
| Common stock issued for cash                                  | 2,371,739           | 23,717            | -                     | -                  | 5,523,873                                 | -   | -                              | 5,547,590                                 |
| Common stock issued for price modification                    | 470,771             | 4,708             | -                     | -                  | 936,822                                   | -   | -                              | 941,530                                   |
| Exchange of 12.5% notes and accrued interest for common stock | 37,700              | 377               | -                     | -                  | 75,056                                    | -   | -                              | 75,433                                    |
| Stock-based compensation:                                     |                     |                   |                       |                    |   |   |                                |   |
| Common stock issued under 401(k) profit sharing plan          | 30,700              | 307               | -                     | -                  | 76,443                                    | -   | -                              | 76,750                                    |
| Options and warrants  | -                   | -                 | -                     | -                  | 813,644                                   | -   | -                              | 813,644                                   |
| Vesting of restricted stock                                   | 350,000             | 3,500             | -                     | -                  | 793,722                                   | -   | -                              | 797,222                                   |
| Warrant modification expense                                  | -                   | -                 | -                     | -                  | 68,548                                    | -   | -                              | 68,548                                    |
| Comprehensive loss:   |                     |                   |                       |                    |   |   |                                |   |
| Net loss  | -                   | -                 | -                     | -                  | -   | -   | (7,437,636)                    | (7,437,636)                               |
| Other comprehensive loss                                      | -                   | -                 | -                     | -                  | -   | (678,365)   | -                              | (678,365)                                 |
| <b>Balance - September 30, 2016</b>                           | <u>42,140,243</u>   | <u>\$ 421,402</u> | <u>4,411</u>          | <u>\$ (14,070)</u> | <u>\$ 78,221,255</u>                      | <u>\$ (10,269,639)</u>                                  | <u>\$ (65,027,064)</u>         | <u>\$ 3,331,884</u>                       |

See Notes to the Condensed Consolidated Financial Statements

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(unaudited)

|   | <b>For the nine months ended</b> |                    |
|---|----------------------------------|--------------------|
|   | <b>September 30,</b>             |                    |
|   | <b>2016</b>                      | <b>2015</b>        |
| <b>Cash Flows from Operating Activities</b>                                 |                                  |                    |
| Net loss  | \$ (7,437,636)                   | \$ (6,535,360)     |
| Adjustments to reconcile net loss to net cash used in operating activities: |                                  |                    |
| Stock-based compensation:   |                                  |                    |
| 401(k) expense  | 60,175                           | 71,843             |
| Options and warrants  | 813,644                          | 865,474            |
| Vesting of restricted stock   | 797,222                          | -                  |
| Common stock price modification expense                                     | 941,530                          | -                  |
| Warrant modification expense  | 68,548                           | -                  |
| Net realized and unrealized investment losses                               | 75,568                           | 170,210            |
| Depreciation and amortization   | 101,758                          | 185,262            |
| Provision for uncollectible assets  | (21,584)                         | 80,401             |
| Prepaid compensation amortization   | 2,250                            | 3,083              |
| Other non-cash income, net  | (8,310)                          | (15,876)           |
| Decrease (increase) in assets:  |                                  |                    |
| Accounts receivable   | (191,883)                        | (292,076)          |
| Inventory   | (185,825)                        | (18,727)           |
| Prepaid expenses and other current assets                                   | (169,405)                        | (139,714)          |
| Deposits  | -                                | (22,284)           |
| Increase (decrease) in liabilities:   |                                  |                    |
| Accounts payable and accrued expenses                                       | (122,196)                        | (359,577)          |
| Deferred revenue  | 483,895                          | 275,136            |
| Other liabilities   | 6,896                            | (4,762)            |
| Total Adjustments   | 2,652,283                        | 798,393            |
| <b>Net Cash Used in Operating Activities</b>                                | <b>(4,785,353)</b>               | <b>(5,736,967)</b> |
| <b>Cash Used in Investing Activities</b>                                    |                                  |                    |
| Purchase of property and equipment  | (260,338)                        | (369,873)          |
| <b>Net Cash Used in Investing Activities</b>                                | <b>(260,338)</b>                 | <b>(369,873)</b>   |
| <b>Cash Provided by Financing Activities</b>                                |                                  |                    |
| Repayments of loans payable   | -                                | (100,000)          |
| Repayments of convertible debt obligations                                  | (50,000)                         | (50,000)           |
| Proceeds from common stock offering   | 5,547,590                        | 5,643,884          |
| <b>Net Cash Provided by Financing Activities</b>                            | <b>5,497,590</b>                 | <b>5,493,884</b>   |
| <b>Effect of Exchange Rate Changes on Cash</b>                              | <b>27,391</b>                    | <b>542,322</b>     |
| <b>Net Increase in Cash</b>   | <b>479,290</b>                   | <b>(70,634)</b>    |
| <b>Cash - Beginning of Period</b>   | <b>110,645</b>                   | <b>442,725</b>     |
| <b>Cash - End of Period</b>   | <b>\$ 589,935</b>                | <b>\$ 372,091</b>  |
| <b>Supplemental Disclosures of Cash Flow Information:</b>                   |                                  |                    |
| Interest paid   | \$ 70,513                        | \$ 128,171         |
| Income taxes paid   | \$ 88                            | \$ 20,550          |
| <b>Non-Cash Investing and Financing Activity</b>                            |                                  |                    |
| Accrued stock based compensation converted to equity                        | \$ 76,750                        | \$ 73,401          |
| Debt and interest converted to equity                                       | \$ 75,433                        | \$ -               |

See Notes to the Condensed Consolidated Financial Statements

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**1. ORGANIZATION**

Through its wholly-owned subsidiaries, Algodon Wines & Luxury Development Group, Inc. (the “Company”, “Algodon Partners”, “AWLD”), a Delaware corporation that was incorporated on April 5, 1999, currently invests in, develops and operates international real estate projects. The Company’s wholly-owned subsidiaries are InvestProperty Group, LLC, Algodon Global Properties, LLC, DPEC Capital, Inc. (“CAP”), and Algodon Europe, Ltd. AWLD also owns approximately 96.5% of Mercari Communications Group, Ltd. (“Mercari”), a public shell corporation that is current in its SEC reporting obligations and is a ready target for merger or sale. Mercari is a consolidated subsidiary of the Company and the noncontrolling interest is negligible.

Through its subsidiaries, the Company currently operates Algodon Mansion (“TAR”), a Buenos Aires-based luxury boutique hotel property and has redeveloped, expanded and repositioned a winery and golf resort property called Algodon Wine Estates (“AWE”) for subdivision of a portion of this property for residential development.

**2. GOING CONCERN AND MANAGEMENT’S LIQUIDITY PLANS**

The accompanying condensed consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. The condensed consolidated financial statements do not include any adjustments relating to the recoverability and classification of asset amounts or the classification of liabilities that might be necessary should the Company be unable to continue as a going concern. The Company incurred losses of \$2,146,702 and \$7,437,636 during the three and nine months ended September 30, 2016, respectively, and \$1,653,427 and \$6,535,360 during the three and nine months ended September 30, 2015, respectively. The Company has an accumulated deficit of \$65,027,064 at September 30, 2016. Cash used in operating activities was \$4,785,353 and \$5,736,967 for the nine months ended September 30, 2016 and 2015, respectively. The aforementioned factors raise substantial doubt about the Company’s ability to continue as a going concern.

The Company needs to raise additional capital in order to expand its business objectives. The Company funded its operations for the nine months ended September 30, 2016 and 2015 primarily through a private placement offering of common stock for proceeds of \$5,547,590 and \$5,643,884, respectively. The Company presently has only enough cash on hand to sustain its operations through February 2017. Historically, the Company has been successful in raising funds to support our capital needs. Management believes that it will be successful in obtaining additional financing; however, no assurance can be provided that the Company will be able to do so. There is no assurance that these funds will be sufficient to enable the Company to attain profitable operations or continue as a going concern. To the extent that the Company is unsuccessful, the Company may need to curtail its operations and implement a plan to extend payables and reduce overhead until sufficient additional capital is raised to support further operations. There can be no assurance that such a plan will be successful. Such a plan could have a material adverse effect on the Company’s business, financial condition and results of operations, and ultimately the Company could be forced to discontinue its operations, liquidate and/or seek reorganization in bankruptcy. These condensed consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.



**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for annual financial statements. In the opinion of management, such statements include all adjustments (consisting only of normal recurring items) which are considered necessary for a fair presentation of the unaudited condensed consolidated financial statements of the Company as of September 30, 2016, and for the three and nine months ended September 30, 2016 and 2015. The results of operations for the three and nine months ended September 30, 2016 are not necessarily indicative of the operating results for the full year. It is suggested that these unaudited condensed consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2015, filed with the Securities and Exchange Commission ("SEC") on March 30, 2016, as amended on March 31, 2016. The condensed consolidated balance sheet as of December 31, 2015 has been derived from the Company's audited consolidated financial statements.

**Use of Estimates**

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, the Company must make estimates and assumptions. These estimates and assumptions affect the reported amounts in the financial statements, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The significant estimates and related assumptions made by the Company relate to the valuation of equity instruments, the useful lives of property and equipment and reserves associated with the realizability of certain assets.

**Segment Information**

The Financial Accounting Standards Board ("FASB") has established standards for reporting information on operating segments of an enterprise in interim and annual financial statements. The Company operates in one segment which is the business of real estate development in Argentina. The Company's chief operating decision-maker reviews the Company's operating results on an aggregate basis and manages the Company's operations as a single operating segment. Certain activities of the Company such as the U.S. Broker Dealer Operations, are considered a service or support division to the Company, by providing capital raising efforts, substantially to support the AWLD real estate development activities, and are not considered a business for segment purposes.

**Reclassifications**

Certain prior year balances have been reclassified in order to conform to current year presentation. These reclassifications have no effect on previously reported results of operations or loss per share.

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Foreign Currency Translation**

The Company's functional and reporting currency is the United States dollar. The functional currencies of the Company's operating subsidiaries are their local currencies (United States dollar, Argentine peso and British pound). There has been a steady devaluation of the Argentine peso relative to the United States dollar in recent years. Assets and liabilities are translated into U.S. dollars at the balance sheet date (15.3338 and 12.9441 at September 30, 2016 and December 31, 2015, respectively) and revenue and expense accounts are translated at a weighted average exchange rate for the period or for the year then ended (14.5245 and 8.9612 for the nine months ended September 30, 2016 and 2015, respectively). Resulting translation adjustments are made directly to accumulated other comprehensive income. The Company engages in foreign currency denominated transactions with customers and suppliers, as well as between subsidiaries with different functional currencies.

A highly inflationary economy is defined as an economy with a cumulative inflation rate of approximately 100 percent or more over a three-year period. If a country's economy is classified as highly inflationary, the functional currency of the foreign entity operating in that country must be remeasured to the functional currency of the reporting entity. The official cumulative inflation rate for Argentina over the last three calendar years approximated 61.4%, although the International Monetary Fund has concerns regarding the accuracy of the official data.

**Property and Equipment**

Investments in property and equipment are recorded at cost. These assets are depreciated using the straight-line method over their estimated useful lives. Most of the Company's assets are located in Argentina and are subject to variation as a result of foreign currency translation.

The Company capitalizes internal vineyard improvement costs when developing new vineyards or replacing or improving existing vineyards. These costs consist primarily of the costs of the vines and expenditures related to labor and materials to prepare the land and construct vine trellises. Expenditures for repairs and maintenance are charged to operating expense as incurred. The cost of properties sold or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts at the time of disposal and resulting gains and losses are included as a component of operating income. Real estate development consists of costs incurred to ready the land for sale, including primarily costs of infrastructure as well as master plan development and associated professional fees. Given that they are not currently in service, the assets are currently not being depreciated.

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Stock-Based Compensation**

The Company measures the cost of services received in exchange for an award of equity instruments based on the fair value of the award. For employees and directors, the fair value of the award is measured on the grant date and for non-employees, the fair value of the award is generally re-measured on financial reporting dates and vesting dates until the service period is complete. The fair value amount of the shares expected to ultimately vest is then recognized over the period services are required to be provided in exchange for the award, usually the vesting period. The estimation of stock-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from original estimates, such amounts are recorded as a cumulative adjustment in the period estimates are revised. The Company considers many factors when estimating expected forfeitures, including types of awards, employee class, and historical experience.

**Concentrations**

The Company maintains cash with major financial institutions. Cash held in US bank institutions is currently insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 at each institution. No similar insurance or guarantee exists for cash held in Argentina bank accounts. There were aggregate uninsured cash balances of \$255,745 and \$45,055 at September 30, 2016 and December 31, 2015, respectively.

**Comprehensive Income (Loss)**

Comprehensive income (loss) is defined as the change in equity of a business during a period from transactions and other events and circumstances from non-owner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. The guidance requires other comprehensive income (loss) to include foreign currency translation adjustments.

**Revenue Recognition**

The Company earns revenues from its real estate, hospitality, food & beverage, broker-dealer and other related services. Revenues from rooms, food, and beverage and other operating departments are recognized as earned at the time of sale or rendering of service. Cash received in advance of the sale or rendering of services is recorded as advance deposits or deferred revenue on the condensed consolidated balance sheets. Deferred revenues associated with real estate lot sale deposits are recognized as revenues (along with any outstanding balance) when the lot sale closes and the deed is provided to the purchaser. Other deferred revenues primarily consist of deposits accepted by the Company in connection with agreements to sell barrels of wine. These wine barrel deposits are recognized as revenues (along with any outstanding balance) when the barrel of wine is shipped to the purchaser. Sales taxes and value added ("VAT") taxes collected from customers and remitted to governmental authorities are presented on a net basis within revenues in the condensed consolidated statements of operations.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**Net Loss per Common Share**

Basic loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding during the period. Diluted loss per common share is computed by dividing net loss attributable to common stockholders by the weighted average number of common shares outstanding, plus the impact of common shares, if dilutive, resulting from the exercise of outstanding stock options and warrants and the conversion of convertible instruments.

The following securities are excluded from the calculation of weighted average dilutive common shares because their inclusion would have been anti-dilutive:

|                                   | <u>September 30,</u> |                   |
|-----------------------------------|----------------------|-------------------|
|                                   | <u>2016</u>          | <u>2015</u>       |
| Options                           | 7,524,265            | 8,956,311         |
| Warrants                          | 1,755,216            | 1,350,895         |
| Total potentially dilutive shares | <u>9,279,481</u>     | <u>10,307,206</u> |

**New Accounting Pronouncements**

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The Company is currently evaluating the impact of the adoption of ASU 2016-09 on its consolidated financial statements or disclosures.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this update clarify the following two aspects to Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The entity first identifies the promised goods or services in the contract and reduce the cost and complexity. An entity evaluates whether promised goods and services are distinct. Topic 606 includes implementation guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). The Company is currently evaluating the impact of the adoption of ASU 2016-10 on its consolidated financial statements or disclosures.

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**New Accounting Pronouncements, continued**

In May 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("Update 2016-12"), amending Update 2014-09. The amendments do not change the core principles of Update 2014-09, but clarify matters related to assessment of a collectability criterion, presentation of sales and other taxes collected from customers, non-cash consideration, contract modifications at transition and completed contracts at transition. The requirements for these standards relating to Topic 606 will be effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. The Company is currently evaluating the impact of the updated requirements on its consolidated financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230)" which provides guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows in order to reduce diversity in practice. The ASU is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. The Company is currently evaluating the impact of adopting this standard on its condensed consolidated financial statements.

The Company has implemented all new accounting standards that are in effect and may impact its condensed consolidated financial statements and does not believe that there are any other new accounting standards that have been issued that might have a material impact on its financial position or results of operations.

**4. INVENTORY**

Inventory at September 30, 2016 and December 31, 2015 is comprised of the following:

|                     | <u>September 30, 2016</u> |           | <u>December 31, 2015</u> |
|---------------------|---------------------------|-----------|--------------------------|
| Vineyard in process | \$ 170,469                | \$        | 180,582                  |
| Wine in process     | 705,127                   | .         | 826,851                  |
| Finished wine       | 210,285                   |           | 104,159                  |
| Other               | 96,787                    |           | 72,676                   |
|                     | <u>\$ 1,182,668</u>       | <u>\$</u> | <u>1,184,268</u>         |

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**5. NET CAPITAL REQUIREMENTS**

The Company's subsidiary, CAP, as a registered broker-dealer, is subject to the SEC's Uniform Net Capital Rule 15c3-1 that requires the maintenance of minimum net capital. This requires that CAP maintain minimum net capital of \$5,000 and requires that the ratio of aggregate indebtedness, as defined, to net capital, shall not exceed 15 to 1.

As of September 30, 2016 and December 31, 2015, CAP's net capital exceeded the requirement by \$65,705 and \$32,078, respectively.

The Company had a percentage of aggregate indebtedness to net capital of approximately 11.82 % and 95.8% as of September 30, 2016 and December 31, 2015, respectively.

Advances, dividend payments and other equity withdrawals are restricted by the regulations of the SEC, and other regulatory agencies are subject to certain notification and other provisions of the net capital rules of the SEC. The Company qualifies under the exemptive provisions of Rule 15c3-3 as the Company does not carry security accounts for customers or perform custodial functions related to customer securities.

**6. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated, or developed by the Company. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

**Level 1** - Valued based on quoted prices at the measurement date for identical assets or liabilities trading in active markets. Financial instruments in this category generally include actively traded equity securities.

**Level 2** - Valued based on (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in markets that are not active; (c) inputs other than quoted prices that are observable for the asset or liability; or (d) from market corroborated inputs. Financial instruments in this category include certain corporate equities that are not actively traded or are otherwise restricted.

**Level 3** - Valued based on valuation techniques in which one or more significant inputs is not readily observable. Included in this category are certain corporate debt instruments, certain private equity investments, and certain commitments and guarantees.

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**6. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued**

The Company's financial assets and liabilities measured at fair value on a recurring basis were as follows:

**Investments – Related Parties at Fair Value**

| <b>As of September 30, 2016</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|---------------------------------|----------------|----------------|----------------|--------------|
| Warrants- Affiliates            | \$ -           | \$ -           | \$ 59,944      | \$ 59,944    |

  

| <b>As of December 31, 2015</b> | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
|--------------------------------|----------------|----------------|----------------|--------------|
| Warrants- Affiliates           | \$ -           | \$ -           | \$ 127,202     | \$ 127,202   |

A reconciliation of Level 3 assets is as follows:

|  | <b>Warrants</b>  |
|--|------------------|
| Balance - December 31, 2015            | \$ 127,202       |
| Received                               | 27,703           |
| Allocated to employees as compensation | (19,393)         |
| Unrealized loss                        | (75,568)         |
| Balance - September 30, 2016           | <u>\$ 59,944</u> |

|  | <b>September 30, 2016</b> | <b>December 31, 2015</b> |
|--|---------------------------|--------------------------|
| Accumulated unrealized (losses) gains related to investments at fair value | <u>\$ (58,349)</u>        | <u>\$ (33,058)</u>       |

It is the Company's policy to distribute part or all of the warrants CAP earns through serving as placement agent on various private placement offerings for a related but independent entity under common management, to registered representatives or other employees who provided investment banking services. The Company recorded \$1,809 and \$19,393 of compensation expense (fair value) related to these distributed warrants for the three and nine months ended September 30, 2016, respectively. The Company recorded \$37,052 compensation expense (fair value) related to these distributed warrants for the three and nine months ended September 30, 2015. Warrants retained by the Company's broker-dealer subsidiary are marked to market at each reporting date using the Black-Scholes option pricing model. Unrealized losses on affiliate warrants of \$28,079 and \$75,568 recorded during the three and nine months ended September 30, 2016 and \$29,772 and \$170,210 for the three and nine months ended September 30, 2015, respectively, are included in revenues on the accompanying condensed consolidated statements of operations.

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**6. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS, continued**

The fair value of the warrants was determined based on the Black-Scholes option pricing model, which requires the input of highly subjective assumptions, including the expected share price volatility. Given that such shares were not publicly-traded through September 30, 2016, the Company developed an expected volatility figure based on a review of the historical volatilities, over a period of time, of similarly positioned public companies within the industry.

The Company's short term financial instruments include cash, accounts receivable, advances and loans to registered representatives, accounts payable, accrued expenses, deferred revenue, other liabilities, loans payable and debt obligations. The carrying value of these instruments approximate fair value, as they bear terms and conditions comparable to market, for obligations with similar terms and maturities.

**7. ACCRUED EXPENSES**

Accrued expenses are comprised of the following:

|  | <u>September 30, 2016</u> | <u>December 31, 2015</u> |
|--|---------------------------|--------------------------|
| Accrued compensation and payroll taxes       | 1,181,503                 | 1,400,498                |
| Accrued taxes payable                        | 127,476                   | 97,428                   |
| Accrued interest                             | 261,133                   | 255,497                  |
| Other accrued expenses                       | 197,097                   | 116,385                  |
| Accrued expenses, current                    | 1,767,209                 | 1,869,808                |
| Accrued payroll tax obligations, non-current | 344,770                   | 399,119                  |
| Total accrued expenses                       | <u>2,111,979</u>          | <u>2,268,927</u>         |

**8. LOANS PAYABLE**

On March 6, 2016 the Company entered into a short-term loan payable in exchange for proceeds of \$34,701 which was used to pay certain payroll and payroll tax obligations. The loan matured on May 6, 2016 and bore interest of 10% over term of the loan.

All principal and interest due under the loan payable was repaid in full on May 6, 2016.



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**9. DEBT OBLIGATIONS**

On January 1, 2016, principal and interest of \$50,000 and \$25,433, respectively, related to the 12.5% Notes were exchanged for 37,700 shares of the Company's common stock at \$2.00 per share, in connection with a one-time offer that was not pursuant to the original terms of the note. An additional \$9,180 of accrued interest related to the 12.5% Notes was derecognized during the period.

For the three and nine months ended September 30, 2016, the Company repaid \$25,000 and \$50,000, respectively, of principal related to the 8% Notes.

The Company accrued interest expense of \$8,294 and \$24,457 during the three and nine months ended September 30, 2016 and \$9,943 and \$31,317 during the three and nine months ended September 30, 2015, respectively, in connection with its convertible notes.

The Company's debt obligations consist of the following:

|                         | <b>September 30, 2016</b> |                     |                   | <b>December 31, 2015</b> |                     |                   |
|-------------------------|---------------------------|---------------------|-------------------|--------------------------|---------------------|-------------------|
|                         | <b>Principal</b>          | <b>Interest [1]</b> | <b>Total</b>      | <b>Principal</b>         | <b>Interest [1]</b> | <b>Total</b>      |
| 8% Convertible Notes    | \$ 187,500                | \$ 245,341          | \$ 432,841        | \$ 237,500               | \$ 220,884          | \$ 458,384        |
| 12.5% Convertible Notes | -                         | -                   | -                 | 50,000                   | 34,613              | 84,613            |
| <b>Total</b>            | <b>\$ 187,500</b>         | <b>\$ 245,341</b>   | <b>\$ 432,841</b> | <b>\$ 287,500</b>        | <b>\$ 255,497</b>   | <b>\$ 542,997</b> |

[1] Accrued interest is included as a component of accrued expenses on the condensed consolidated balance sheets.

**10. RELATED PARTY TRANSACTIONS**

**Assets**

Accounts receivable – related parties, net of \$504,578 and \$333,911 at September 30, 2016 and December 31, 2015, respectively, represents the net realizable value of advances made to related, but independent, entities under common management, of which \$260,080 and \$182,227, respectively, represents amounts owed to the Company in connection with expense sharing agreements as described below.

**Investments**

See Note 6 – Investments and Fair Value of Financial Instruments, for information related to investments in related parties.

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**10. RELATED PARTY TRANSACTIONS, continued**

**Revenues**

For the three and nine months ended September 30, 2016, the Company recorded \$1,511 and \$88,344 of private equity and venture capital fees arising from private placement transactions on behalf of a related, but independent, entity under common management. The Company recorded an accrual reversal during the three months ended September 30, 2016, such that, of the total fees earned, \$(6,815) and \$60,641 respectively, represent cash fees earned during the three and nine months ended September 30, 2016, and \$5,304 and \$27,703 respectively, represent fees in the form of warrants for the three and nine months ended September 30, 2016. Fees in the form of warrants were recorded at fair value as of the grant date using the Black-Scholes option pricing model. For both the three and nine months ended September 30, 2015, CAP recorded \$238,517 of private equity and venture capital fees arising from private placement transactions on behalf of a related, but independent, entity under common management. Of this amount, \$185,589 represent cash fees and \$52,928 represent fees in the form of warrants, which were recorded at fair value as of the grant date using the Black-Scholes option pricing model.

**Expense Sharing**

On April 1, 2010, the Company entered into an agreement with a related entity of which AWLD's CEO is Chairman and Chief Executive Officer, and AWLD's CFO is an executive officer, to share expenses such as office space, support staff and other operating expenses. General and administrative expenses were reduced by \$14,138 and \$82,528 during the three and nine months ended September 30, 2016 and \$39,196 and \$124,133 during the three and nine months ended September 30, 2015, respectively. The entity owed \$245,003 and \$177,755 to the Company under the expense sharing agreement as of September 30, 2016 and December 31, 2015, respectively, which is included in accounts receivable – related parties, net on the accompanying condensed consolidated balance sheets.

In addition, the Company has an expense sharing agreement with a related, but independent entity to share expenses such as office space and other clerical services. The owners of more than 5% of that entity include (i) AWLD's chairman, and (ii) a more than 5% owner of AWLD. General and administrative expenses were reduced by \$3,990 and \$11,970 during the three and nine months ended September 30, 2016, respectively and \$3,990 and \$11,970 during the three and nine months ended September 30, 2015, respectively. The entity owed \$392,077 and \$380,472 to the Company under the expense sharing agreement as of September 30, 2016 and December 31, 2015, respectively, of which \$377,000 and \$376,000, respectively, is deemed unrecoverable and written off.

**11. BENEFIT CONTRIBUTION PLAN**

The Company sponsors a 401(k) profit-sharing plan ("401(k) Plan") that covers substantially all of its employees in the United States. The 401(k) Plan provides for a discretionary annual contribution, which is allocated in proportion to compensation. In addition, each participant may elect to contribute to the 401(k) Plan by way of a salary deduction.

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**11. BENEFIT CONTRIBUTION PLAN, continued**

A participant is always fully vested in their account, including the Company's contribution. For the three and nine months ended September 30, 2016, the Company recorded a charge associated with its contribution of \$17,668 and \$60,175 and for the three and nine months ended September 30, 2015, the Company recorded a charge associated with its contribution of \$6,108 and \$71,842, respectively. This charge has been included as a component of general and administrative expenses in the accompanying condensed consolidated statements of operations. The Company issues shares of its common stock to settle prior year's obligations based on the fair market value of its common stock on the date the shares are issued. During the nine months ended September 30, 2016, the Company issued 30,700 shares of common stock at \$2.50 per share in connection with its 401(k) obligation for the year ended December 31, 2015.

**12. STOCKHOLDERS' EQUITY**

**Common Stock**

During the nine months ended September 30, 2016, the Company issued 1,608,200 shares of common stock at \$2.50 per share and 763,539 shares of common stock at \$2.00 per share for aggregate cash proceeds of \$5,547,590.

On June 1, 2016, the Company issued an additional 470,771 common shares for no consideration, to investors who had purchased shares between December 2015 and May 2016 at a price of \$2.50 per share, in order to effectively reduce the per share price to \$2.00 per share. The Company recorded a charge of \$941,530 related to the issuance of these shares during the three and nine months ended September 30, 2016, which is recorded as common stock price modification expense in the accompanying condensed consolidated statements of operations.

**Restricted Stock Awards**

On January 11, 2016, the Company issued 350,000 shares of restricted stock with a grant date value of \$875,000 to Maxim Group, LLC ("Maxim"), in connection with entering into an agreement with Maxim for general financial advisory and investment banking services. The shares vested 11.11% in connection with the execution of the agreement, and vest 11.11% monthly thereafter. The shares are marked to market when they vest, and unvested shares are marked to market at each reporting period, with the current fair value expensed over the vesting period. During the three and nine months ended September 30, 2016, the Company recognized \$233,333 and \$797,222 of stock-based compensation expense related to the vesting of this award, which is included in general and administrative expenses in the accompanying condensed consolidated statements of operations. The shares are fully vested and there is no unrecognized stock based-compensation related to these shares as of as of September 30, 2016.

On or about October 28, 2016, the Company terminated its agreement with Maxim. In connection with the termination, the Company is currently in negotiations with Maxim for a return of a portion of the 350,000 shares of common stock valued at \$2.50 per share previously issued to Maxim but there can be no assurance that any shares will be returned.

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**12. STOCKHOLDERS' EQUITY, continued**

**Application for Quotation on OTC Bulletin Board**

On January 20, 2016 FINRA cleared the Company's request to submit quotations on the OTC Bulletin Board and in OTC Link. In addition, the Company submitted its application for quotation on the OTCQB marketplace which was approved on March 7, 2016. The Company's common stock began trading in the over-the-counter market on September 23, 2016.

**Accumulated Other Comprehensive Loss**

For three and nine months ended September 30, 2016, the Company recorded \$(142,900) and \$(678,365), respectively, of foreign currency translation adjustments as accumulated other comprehensive loss, and for the three and nine months ended September 30, 2015, the Company recorded \$(115,931) and \$(133,344), respectively, of foreign currency translation adjustments as accumulated other comprehensive loss.

**Warrants**

Pursuant to the Company's Investor Relations Consulting Agreement (see Note 13 – Commitments and Contingencies – Commitments), the Company granted five-year warrants for the purchase of 75,000 shares of the Company's common stock to MZCHI on April 18, 2016 and will grant five-year warrants for the purchase of an additional 75,000 shares of the Company's common stock on October 18, 2016 (collectively, the "IR Warrants"). (See Note 14 – Subsequent Events). The warrants have an exercise price of \$2.50 per share, and vest three months from the date of grant. As of the effective date of the agreement, the IR Warrants had an aggregate value of \$103,500, and the unvested warrants are subject to mark to market adjustments at each reporting and vest date, and which is amortized through the vesting period for each respective grant. During the three and nine months ended September 30, 2016, the Company recorded \$20,730 and \$78,927 of stock-based compensation related to the amortization of the IR Warrants, which is recorded within general and administrative expense in the condensed consolidated statements of operations.

During the three and nine months ended September 30, 2016, in connection with the sale of its equity securities, the Company issued five-year warrants (the "CAP Warrants") to its subsidiary CAP, who acted as placement agent, to purchase 65,854 and 250,954 shares of its common stock, with a weighted average grant date value of \$0.82 and \$0.96 per share, respectively. Warrants granted between January 1, 2016 and May 31, 2016 were granted with an exercise price of \$2.50 per share and warrants granted between June 1, 2016 and September 30, 2016 had an exercise price of \$2.00 per share. On June 1, 2016, the exercise price of warrants granted from December 2015 through May 2016 was reduced to \$2.00 per share and the quantity of shares available to be issued pursuant to the warrants was increased, in the aggregate, by 47,076 shares (See Modification of Warrants, below). During the three and nine months ended September 30, 2015, in connection with the sale of its equity securities, the Company issued five-year warrants to its subsidiary CAP, who acted as placement agent, to purchase 112,407 and 327,351 shares, respectively, of its common stock with an exercise price of \$2.00 per share, which had a weighted average grant date value per share of \$0.84 and \$0.84, respectively.

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**12. STOCKHOLDERS' EQUITY, continued**

**Warrants, continued**

CAP, in turn, awarded the above-mentioned warrants to its registered representatives and recorded \$45,900 and \$203,425, of stock-based compensation expense for three and nine months ended September 30, 2016, and \$80,259 and \$235,105, of stock-based compensation expense for the three and nine months ended September 30, 2015, respectively, within general and administrative expense in the condensed consolidated statements of operations.

In applying the Black-Scholes option price model to value the warrants, the Company used the following weighted average assumptions:

|                       | <b>For the three months<br/>ended<br/>September 30,</b> |             | <b>For the nine months ended<br/>September 30,</b> |             |
|-----------------------|---|-------------|--|-------------|
|                       | <b>2016</b>   | <b>2015</b> | <b>2016</b>  | <b>2015</b> |
|                       | Risk free interest rate                                 | 1.14%       | 1.37%  | 1.16%       |
| Expected term (years) | 5.00  | 5.00        | 5.00   | 5.00        |
| Expected volatility   | 46.0%   | 47.0%       | 46.0%  | 46.8%       |
| Expected dividends    | 0.0%  | 0.00%       | 0.0%   | 0.0%        |
| Forfeiture rate       | 5%  | 5%          | 4%   | 5%          |

A summary of warrant activity during the nine months ended September 30, 2016 is presented below:

|                                    | <b>Number of Warrants</b> | <b>Weighted Average<br/>Exercise Price</b> | <b>Weighted Average<br/>Remaining Life in<br/>Years</b> | <b>Intrinsic Value</b> |
|------------------------------------|---------------------------|--|---|------------------------|
| Outstanding, December 31,<br>2015  | 1,382,186                 | \$ 2.21                                    |   |                        |
| Issued                             | 373,030                   | 2.10                                       |   |                        |
| Exercised                          | -                         | -  |   |                        |
| Cancelled                          | -                         | -  |   |                        |
| Outstanding, September 30,<br>2016 | <u>1,755,216</u>          | <u>\$ 2.19</u>                             | <u>2.87</u>   | <u>\$ -</u>            |
| Exercisable, September 30,<br>2016 | <u>1,755,216</u>          | <u>\$ 2.19</u>                             | <u>2.87</u>   | <u>\$ -</u>            |

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**12. STOCKHOLDERS' EQUITY, continued**

**Warrants, continued**

A summary of outstanding and exercisable warrants as of September 30, 2016 is presented below:

| <u>Warrants Outstanding</u> |                         | <u>Warrants Exercisable</u>           |   |                                       |
|-----------------------------|-------------------------|---------------------------------------|---|---------------------------------------|
| <u>Exercise Price</u>       | <u>Exercisable Info</u> | <u>Outstanding Number of Warrants</u> | <u>Weighted Average Remaining Life In Years</u> | <u>Exercisable Number of Warrants</u> |
| \$ 2.00                     | Common Stock            | 706,672                               | 4.1   | 706,672                               |
| \$ 2.50                     | Common Stock            | 75,000                                | 4.5   | 75,000                                |
| \$ 2.30                     | Preferred Stock         | 973,544                               | 1.8   | 973,544                               |
|                             | <b>Total</b>            | <b>1,755,216</b>                      |   | <b>1,755,216</b>                      |

**Modification of Warrants**

On June 1, 2016, in connection with the issuance of common stock for the purpose of modifying the investor price per share (see Common Stock, above), the Company modified CAP Warrants granted between December 2015 and May 2016, such that the exercise price was adjusted from \$2.50 per share to \$2.00 per share, and the aggregate number of shares available to be purchased in connection with the warrants was increased from 198,807 to 245,883 shares. The Company recorded warrant modification expense of \$68,548 related to the modification of the CAP Warrants.

**Equity Compensation Plan**

On July 11, 2016, the Board of Directors of Algodon Wines & Luxury Development Group, Inc. (the "Company") adopted the 2016 Stock Option Plan (the "2016 Plan"). Under the 2016 Plan, 1,224,308 shares of common stock of the Company are authorized for issuance, with an automatic annual increase on January 1 of each year equal to 2.5% of the total number of shares of common stock outstanding on such date, on a fully diluted basis.

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**12. STOCKHOLDERS' EQUITY, continued**

**Stock Options**

The Company has computed the fair value of options granted using the Black-Scholes option pricing model. Until September 23, 2016, there was no public trading market for the shares of AWLD common stock underlying the Company's 2008 Equity Incentive Plan (the "2008 Plan") and the 2016 Plan. Accordingly, the fair value of the AWLD common stock was estimated by management based on observations of the cash sales prices of AWLD equity securities. Forfeitures are estimated at the time of valuation and reduce expense ratably over the vesting period. This estimate will be adjusted periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate, when it is material. The expected term of options granted to consultants represents the contractual term, whereas the expected term of options granted to employees and directors was estimated based upon the "simplified" method for "plain-vanilla" options. Given that the Company's shares were not publicly traded through September 23, 2016, the Company developed an expected volatility figure based on a review of the historical volatilities, over a period of time, of similarly positioned public companies within its industry. The risk-free interest rate was determined from the implied yields from U.S. Treasury zero-coupon bonds with a remaining term consistent with the expected term of the options. The Company estimated forfeitures related to options at an annual rate of 5% for options outstanding at September 30, 2016

On June 15, 2015, the Company granted five-year options to purchase an aggregate of 2,211,890 shares of common stock to employees, officers, directors and consultants of the Company, pursuant to the 2008 Plan. Options to purchase an aggregate of 2,201,890 shares had an exercise price of \$2.20 per share and an option to purchase 10,000 shares of common stock had an exercise price of \$3.30 per share. The options vest over a four year period with one-fourth vesting on June 8, 2016 and the remainder vesting quarterly thereafter and had an aggregate grant date value of \$1,409,900 (\$0.64 per share), of which options granted to employees, officers and directors had an aggregate grant date fair value of \$1,251,384, which will be recognized ratably over the vesting period, while options granted to consultants had an aggregate grant date value of \$158,516, which will be re-measured on financial reporting dates and vesting dates until the service period is complete.

On July 19, 2016, the Company granted five-year options to purchase a total of 400,000 shares of common stock at an exercise price of \$2.20 to two members of the Company's Board of Directors pursuant to the 2016 Plan. The options vested one-third on the date of grant and one-third on each of the two anniversaries subsequent to the date of grant. The options had a grant date value of \$0.60 per share, representing an aggregate grant date value of \$239,421.

In applying the Black-Scholes option pricing model, the Company used the following weighted average assumptions:

|                         | <b>For The Three Months Ended</b> |             | <b>For The Nine Months Ended</b> |             |
|-------------------------|-----------------------------------|-------------|----------------------------------|-------------|
|                         | <b>September 30,</b>              |             | <b>September 30, 2016</b>        |             |
|                         | <b>2016</b>                       | <b>2015</b> | <b>2016</b>                      | <b>2015</b> |
| Risk free interest rate | 0.84%                             | N/A         | 0.84%                            | 1.10%       |
| Expected term (years)   | 3.25                              | N/A         | 3.25                             | 3.59        |
| Expected volatility     | 46.1%                             | N/A         | 46.1%                            | 46.1%       |
| Expected dividends      | 0%                                | N/A         | 0%                               | 0.0%        |
| Forfeiture rate         | 5.0%                              | N/A         | 5.0%                             | 5.0%        |

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**12. STOCKHOLDERS' EQUITY, continued**

**Stock Options, continued**

During the three and nine months ended September 30, 2016 the Company recorded stock-based compensation expense of \$253,856 and \$531,292 respectively, and during the three and nine months ended September 30, 2015, the Company recorded stock-based compensation expense of \$178,946 and \$630,372, respectively, related to stock option grants, which is reflected as general and administrative expenses in the condensed consolidated statements of operations. As of September 30, 2016, there was \$1,587,644 of unrecognized stock-based compensation expense related to stock option grants that will be amortized over a weighted average period of 2.4 years, of which \$263,594 of unrecognized expense is subject to non-employee mark-to-market adjustments.

A summary of options activity during the nine months ended September 30, 2016 is presented below:

|                                 | Number of<br>Options | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Life<br>In Years | Intrinsic<br>Value |
|---------------------------------|----------------------|--|--|--------------------|
| Outstanding, December 31, 2015  | 8,939,436            | 2.70                                     |  |                    |
| Granted                         | 400,000              | 2.20                                     |  |                    |
| Exercised                       | -                    | -  |  |                    |
| Expired                         | (1,771,421)          | 3.85                                     |  |                    |
| Forfeited                       | (43,750)             | 2.32                                     |  |                    |
| Outstanding, September 30, 2016 | <u>7,524,265</u>     | <u>\$ 2.40</u>                           | <u>2.8</u>   | <u>\$ -</u>        |
| Exercisable, September 30, 2016 | <u>4,797,292</u>     | <u>\$ 2.46</u>                           | <u>2.4</u>   | <u>\$ -</u>        |

The following table presents information related to stock options at September 30, 2016:

| Options Outstanding |                               | Options Exercisable                      |                               |
|---------------------|-------------------------------|--|-------------------------------|
| Exercise Price      | Outstanding Number of Options | Weighted Average Remaining Life In Years | Exercisable Number of Options |
| \$ 2.20             | 2,566,890                     | 3.9                                      | 810,526                       |
| 2.48                | 4,847,375                     | 2.1                                      | 3,883,641                     |
| 3.30                | 10,000                        | 3.7                                      | 3,125                         |
| 3.50                | 25,000                        | 1.7                                      | 25,000                        |
| 3.85                | 75,000                        | 0.5                                      | 75,000                        |
|                     | <u>7,524,265</u>              | 2.4                                      | <u>4,797,292</u>              |



**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
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**13. COMMITMENTS AND CONTINGENCIES**

**Legal Matters**

The Company is involved in litigation and arbitrations from time to time in the ordinary course of business. The Company does not believe that the outcome of any such pending or threatened litigation will have a material adverse effect on its financial condition or results of operations. However, as is inherent in legal proceedings, there is a risk that an unpredictable decision adverse to the company could be reached. The Company records legal costs associated with loss contingencies as incurred. Settlements are accrued when, and if, they become probable and estimable.

**Consulting Agreements**

On or about January 11, 2016, the Company entered into an agreement with Maxim Group LLC (“Maxim”) to provide general financial advisory and investment banking services to the Company. Pursuant to the terms of this agreement, Maxim will receive a monthly cash fee of \$7,500 for the duration of the agreement, which may be terminated by either party at any time after nine months, or upon 30 days prior written notice to the other party. In connection with the agreement, the Company issued 350,000 shares of restricted common stock valued at \$2.50 per share to Maxim (see Note 12 – Stockholders’ Equity), which vest 11.1% upon execution of the agreement, and 11.1% monthly thereafter. An additional 100,000 shares of restricted stock will be issued to Maxim upon the uplisting of the Company’s common stock to a national exchange.

The Company entered into an Investor Relations Consulting Agreement effective April 8, 2016 (the “IR Agreement”) with MZHCI LLC (“MZHCI”) to provide consulting services with respect to financial markets and exchanges, competitors, business acquisitions and other related matters in exchange for consideration of \$6,500 of cash per month plus five-year warrants for the purchase of up to 150,000 shares of the Company’s common stock at an exercise price of \$2.50 per share, of which warrants for the purchase of 75,000 share of common stock were granted on April 18, 2016 (see Note 12 – Stockholders’ Equity – Warrants) and warrants for the purchase of additional 75,000 shares of common stock were granted on October 18, 2016. (See Note 14 – Subsequent Events).

**Importer Agreement**

The Company entered into an agreement (the “Importer Agreement”) with an importer (the “Importer”) effective June 1, 2016, pursuant to which the Company has engaged the Importer as its sole and exclusive importer, distributor and marketing agent of wine in the United States at prices mutually agreed upon by the Company and the Importer. The Importer Agreement terminates on December 31, 2020, and is renewable for an indefinite number of successive three year terms. The Importer Agreement may be terminated by the Company or the Importer for cause, as defined in the Importer Agreement.

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(unaudited)**

**14. SUBSEQUENT EVENTS**

Management has evaluated all subsequent events to determine if events or transactions occurring through the date the condensed consolidated financial statements were issued, require adjustment to or disclosure in the condensed consolidated financial statements.

**Foreign Currency Exchange Rates**

The Argentine peso to United States dollar exchange rate was 14.9749, 15.3338 and 12.9441 at November 10, 2016, September 30, 2016 and December 31, 2015, respectively.

**Issuance of Common Stock**

On October 31, 2016, the Company issued 50,000 shares of its common stock for cash proceeds of \$100,000.

**Warrants**

On October 18, 2016, the Company granted five-year warrants for the purchase of 75,000 shares of its common stock to MZHCI, pursuant to the Investor Relations Consulting Agreement.

**Stock Options**

On October 20, 2016, options for the purchase of 100,000 shares of the Company's common stock were granted to an employee of the Company and options for the purchase of an aggregate 400,000 shares of the Company's common stock were granted to Company consultants, under the 2016 Plan.

**Termination of Consulting Agreement**

On or about October 28, 2016, the Company terminated its agreement with Maxim for general advisory and investment banking services. In connection with the termination, the Company is currently in negotiations with Maxim for a return of a portion of the 350,000 shares of common stock valued at \$2.50 per share previously issued to Maxim but there can be no assurance that any shares will be returned.

## **Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with our unaudited condensed consolidated financial statements and notes thereto included herein. In connection with, and because we desire to take advantage of, the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, we caution readers regarding certain forward looking statements in the following discussion and elsewhere in this report and in any other statement made by us, or on our behalf, whether or not in future filings with the Securities and Exchange Commission. Forward-looking statements are statements not based on historical information and which relate to future operations, strategies, financial results or other developments. Forward looking statements are necessarily based upon estimates and assumptions that are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control and many of which, with respect to future business decisions, are subject to change. These uncertainties and contingencies can affect actual results and could cause actual results to differ materially from those expressed in any forward looking statements made by, or on our behalf. Words such as "anticipate," "estimate," "plan," "continuing," "ongoing," "expect," "believe," "intend," "may," "will," "should," "could," and similar expressions are used to identify forward-looking statements. We disclaim any obligation to update forward-looking statements.*

*The independent registered public accounting firm's report on the Company's consolidated financial statements as of December 31, 2015, and for each of the years in the two-year period then ended, includes a "going concern" explanatory paragraph, that describes substantial doubt about the Company's ability to continue as a going concern.*

*Unless the context requires otherwise, references in this document to "AWLD", "we", "our", "us" or the "Company" are to Algodon Wines & Luxury Development Group, Inc. and its subsidiaries.*

### **Overview**

We are an integrated, lifestyle related real estate development company, capitalizing on our unique brand of affordable luxury, branded as "Algodon", to create a diverse set of interrelated products and services. Our wines, hotels and real estate ventures, currently concentrated in Argentina, offer a blend of high-end, luxury and adventures products. We hope to further broaden the reach and depth of our services to strengthen and cement the reach of our brand. Ultimately, we intend to further expand and grow our business by combining unique and promising opportunities with our brand and clientele.

Through our subsidiaries, we currently operate Algodon Mansion, a Buenos Aires-based luxury boutique hotel property, and we have redeveloped, expanded and repositioned a winery and golf resort property called Algodon Wine Estates for subdivision of a portion of this property for residential development.

Investment in foreign real estate requires consideration of certain risks typically not associated with investing in the United States. Such risks include trade balances and imbalances and related economic policies, unfavorable currency exchange rate fluctuations, imposition of exchange control regulation by the United States or foreign governments, United States and foreign withholding taxes, limitations on the removal of funds or other assets, policies of governments with respect to possible nationalization of their industries, political difficulties including expropriation of assets, confiscatory taxation and economic or political instability in foreign nations or changes in laws which affect foreign investors.

## Recent Developments and Trends

### *Financings*

During the three and nine months ended September 30, 2016, we raised approximately \$1.3 and \$5.5 million, respectively, of new capital from the issuance of common stock for cash.

### *Initiatives*

We have implemented a number of initiatives designed to expand revenues and control costs. Revenue enhancement initiatives include expanding marketing, investment in additional winery capacity and developing new real estate development revenue sources. Cost reduction initiatives include investment in equipment that will decrease our reliance on subcontractors, as well as outsourcing and restructuring of certain functions. Our goal is to become more self-sufficient and less dependent on outside financing.

### *Liquidity*

As reflected in our condensed consolidated financial statements, we have generated significant losses which have resulted in a total accumulated deficit of approximately \$65 million, raising substantial doubt that we will be able to continue operations as a going concern. Our independent registered public accounting firm included an explanatory paragraph in their report for the years ended December 31, 2015 and 2014, stating that we have incurred significant losses and need to raise additional funds to meet our obligations and sustain our operations. Our ability to execute our business plan is dependent upon our generating cash flow and obtaining additional debt or equity capital sufficient to fund operations. If we are able to obtain additional debt or equity capital (of which there can be no assurance), we hope to acquire additional management, as well as increase the marketing of our products and continue the development of our real estate holdings.

Our business strategy may not be successful in addressing these issues, and there can be no assurance that we will be able to obtain any additional capital. If we cannot execute our business plan on a timely basis (including acquiring additional capital), our stockholders may lose their entire investment in us, because we may have to delay vendor payments and/or initiate cost reductions, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately we could be forced to discontinue our operations, liquidate and/or seek reorganization under the U.S. bankruptcy code.

## Consolidated Results of Operations

### *Three months ended September 30, 2016 compared to three months ended September 30, 2015*

#### *Overview*

We reported net losses of approximately \$2.1 million and \$1.7 million for the three months ended September 30, 2016 and 2015, respectively. This increase in net loss of \$0.4 million is primarily due to a decrease in gross profit during the period.

#### *Revenues*

Revenues were approximately \$327,000 and \$593,000 during the three months ended September 30, 2016 and 2015, respectively, representing a decrease of \$266,000 or 45%. Increases in hotel and wine revenues of approximately \$356,000 were offset by \$227,000 decreases in broker-dealer revenues and a \$395,000 decrease in revenues resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the third quarter of 2016 compared to the same quarter in 2015.

#### *Gross loss*

We generated a gross loss of approximately \$209,000 for the three months ended September 30, 2016 as compared to the gross income of \$148,000 for the three months ended September 30, 2015, representing a decrease of \$357,000 or 241%. The unfavorable variance results primarily from the aforementioned decrease in broker-dealer revenues, for which costs of sales are relatively fixed, and from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the third quarter of 2016 compared to the same quarter in 2015.

Cost of sales, which consists of raw materials, direct labor and indirect labor associated with our business activities, increased by approximately \$91,000 from \$445,000 for the three months ended September 30, 2015 to \$536,000 for the three months ended September 30, 2016. The \$450,000 increase in wine and hotel cost of sales results was partially offset by a \$359,000 decrease in cost of sales resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the third quarter of 2016 compared to the same quarter in 2015.

#### *Selling and marketing expenses*

Selling and marketing expenses were approximately \$2,000 and \$40,000 for the three months ended September 30, 2016 and 2015, respectively, representing a decrease of \$38,000 or 94% primarily due to a decrease in marketing costs resulting from the renegotiation of pricing with certain marketing providers and consultants, and the reduction in public relations and marketing campaigns from the prior period.

### *General and administrative expenses*

General and administrative expenses were approximately \$1.9 million for the three months ended September 30, 2016, as compared to \$1.7 million for the three months ended September 30, 2015, representing an increase of \$0.2 million or 12%. Significant variations in general and administrative expense included a \$0.3 million increase in stock based compensation resulting from the vesting of restricted stock and warrants issued to consultants in connection with the Company's entry into agreements for financial advisory and investor relations services, a \$0.1 million increase in professional fees, and a \$0.1 million increase in occupancy costs and office expenses, which were offset by a \$0.1 million decrease from the impact of the fluctuations in exchange rate the Argentine peso to the United States dollar; and \$0.2 million decreases in commissions and stock based compensation to registered representatives due to reduced capital raises.

### *Depreciation and amortization expense*

Depreciation and amortization expense was approximately \$11,000 and \$54,000 during the three months ended September 30, 2016 and 2015, respectively, representing a decrease of \$43,000 or 79%. The decrease in depreciation charges is attributable to fully depreciated hotel assets, as well as to the decline of in value of the Argentine peso vis-à-vis the U.S. dollar as most of our property and equipment is located in Argentina.

### *Interest expense, net*

Interest expense was approximately \$53,000 and \$34,000 during the three months ended September 30, 2016 and 2015, respectively, representing an increase of \$19,000 or 56% resulting from interest accrued related to deferred salary obligations.

### ***Nine months ended September 30, 2016 compared to nine months ended September 30, 2015***

#### *Overview*

We reported net losses of approximately \$7.4 million and \$6.5 million for the nine months ended September 30, 2016 and 2015, respectively, reflecting an increase in net losses of \$0.9 million or 14%. The increase in net loss is primarily due to an approximately \$0.9 million non-cash charge resulting from the issuance of stock for no consideration to our existing stockholders, in order to effectively reduce the price of shares previously purchased for \$2.50 per share, to \$2.00 per share.

#### *Revenues*

Revenues were approximately \$1.1 million and \$1.4 million during the nine months ended September 30, 2016 and 2015, respectively, reflecting a decrease of \$0.3 million or 21%. Decreases of \$0.8 million resulting from the decline in the value of the Argentine peso vis-à-vis the U.S. dollar and a \$0.1 decrease in broker-dealer revenues were partially offset by increases of \$0.3 million in hotel revenues and \$0.3 million in wine and agricultural sales.

### *Gross loss*

We generated a gross loss of approximately \$165,000 and \$131,000, for the nine months ended September 30, 2016 and 2015, respectively, representing an increase in gross loss of \$34,000. The unfavorable variance results primarily from the aforementioned decrease in broker-dealer revenues, for which costs of sales are relatively fixed, and from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the first nine months of 2016 compared to the comparable period in 2015.

Cost of sales, which consists of raw materials, direct labor and indirect labor associated with our business activities, decreased by approximately \$290,000, from \$1,565,000 for the nine months ended September 30, 2015 to approximately \$1,275,000 for the nine months ended September 30, 2016. Increases in (i) costs of hotel revenues of \$280,000; (ii) cost of wine sales of \$231,000, and (iii) other costs of sales of \$8,000 were offset by a \$809,000 decrease in costs of sales resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the first nine months of 2016 compared to the comparable period in 2015.

### *Selling and marketing expenses*

Selling and marketing expenses were approximately \$85,000 and \$177,000, for the nine months ended September 30, 2016 and 2015, respectively, representing a decrease of \$92,000 or 52%. The decrease is primarily attributable to a decrease in marketing costs resulting from the renegotiation of pricing with certain marketing providers and consultants, and the reduction in public relations and marketing campaigns as compared to the same period in 2015.

### *General and administrative expenses*

General and administrative expenses were approximately \$6.0 million and \$5.9 million for the nine months ended September 30, 2016 and 2015, respectively, representing an increase of \$0.1 million or 1%. Significant variances in general and administrative expense included a \$0.7 million increase in stock-based compensation resulting from the vesting of restricted stock and warrants issued to consultants and \$0.3 million increase in consulting expenses in connection with the Company's entry into agreements for financial advisory and investor relations services, as well as an increase in severance costs during the period of \$0.3 million. These increases were offset by a \$0.6 million decrease resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar for the nine months ended September 30, 2016 as compared to the same period in 2015, as well as a \$0.3 million decrease in administrative compensation expense, primarily due to staff reductions during the period and a \$0.3 million decrease in commissions and stock-based compensation to registered representatives.

### *Depreciation and amortization expense*

Depreciation and amortization expense was approximately \$63,000 and \$185,000 during the nine months ended September 30, 2016 and 2015, respectively, representing a decrease of \$122,000 or 66%. It should be noted that an additional \$38,000 and \$132,000 of depreciation and amortization expense was capitalized to inventory during the nine months ended September 30, 2016 and 2015, respectively. The decrease in depreciation charges is attributable to fully depreciated hotel assets, as well as to the decline of in value of the Argentine peso vis-à-vis the U.S. dollar as most of our property and equipment is located in Argentina.

### *Interest expense, net*

Interest expense was approximately \$144,000 and \$188,000 during the nine months ended September 30, 2016 and 2015, respectively, representing a decrease of \$44,000 or 23% resulting primarily from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar for the nine months ended September 30, 2016 as compared to the same period in 2015.

### *Common stock price modification*

We recognized common stock price modification expense of approximately \$942,000 during the nine months ended September 30, 2016, related to the issuance of 470,771 shares of our common stock for no consideration, to investors who had previously purchased shares at a price of \$2.50 per share, in order to effectively reduce their per share price to \$2.00 per share.

### *Warrant modification expense*

Warrant modification expense of approximately of \$69,000 during the nine months ended September 30, 2016 is related to the modification of the warrants (the "CAP Warrants") previously issued to registered representatives of our subsidiary DPEC Capital, Inc. ("CAP") who acted as the Company's placement agent. On June 1, 2016, the Company modified CAP Warrants granted between December 2015 and May 2016, such that the exercise price was adjusted from \$2.50 per share to \$2.00 per share, and the aggregate number of shares available to be purchased in connection with the warrants was increased from 198,807 to 245,883 shares.

## **Liquidity and Capital Resources**

We measure our liquidity a variety of ways, including the following:

|                            | <u>September 30, 2016</u> | <u>December 31, 2015</u> |
|----------------------------|---------------------------|--------------------------|
| Cash                       | \$ 589,935                | \$ 110,645               |
| Working Capital Deficiency | \$ (570,059)              | \$ (1,477,183)           |

Based upon our working capital situation as of September 30, 2016, we require additional equity and/or debt financing in order to sustain operations. These conditions raise substantial doubt about our ability to continue as a going concern.

We have relied primarily on debt and equity private placement offerings to third party independent, accredited investors to sustain operations. These offerings were conducted by our wholly-owned subsidiary DPEC Capital, Inc. Additionally, from time to time, we secured individual, direct loans from our CEO and other shareholders.

During the nine months ended September 30, 2016, we issued common stock to accredited investors in a private placement transaction for gross proceeds of \$5,547,590. The proceeds from these financing activities were used to fund our existing operating deficits, legal and accounting expenses associated with being a public company, capital expenditures associated with our real estate development projects, enhanced marketing efforts to increase revenues and the general working capital needs of the business.



### ***Availability of Additional Funds***

As a result of the above developments, we have been able to sustain operations. However, we will need to raise additional capital in order to meet our future liquidity needs for operating expenses, additional capital expenditures for the winery expansion and to further invest in our real estate development. If we are unable to obtain adequate funds on reasonable terms, we may be required to significantly curtail or discontinue operations.

### ***Sources and Uses of Cash for the Nine Months Ended September 30, 2016 and 2015***

#### ***Net Cash Used in Operating Activities***

Net cash used in operating activities for the nine months ended September 30, 2016 and 2015 amounted to approximately \$4,785,000 and \$5,737,000, respectively. During the nine months ended September 30, 2016, the net cash used in operating activities was primarily attributable to the net loss of approximately \$7,438,000 adjusted for approximately \$2,831,000 of net non-cash expenses, and approximately \$178,000 of cash used by changes in the levels of operating assets and liabilities. During the nine months ended September 30, 2015, the net cash used in operating activities was primarily attributable to the net loss of approximately \$6,535,000 adjusted for approximately \$1,360,000 of non-cash expenses, and approximately \$562,000 of cash used in by changes in the levels of operating assets and liabilities.

#### ***Net Cash Used in Investing Activities***

Net cash used in investing activities for the nine months ended September 30, 2016 and 2015 amounted to approximately \$260,000 and \$370,000, respectively, and was primarily related to the purchase of property and equipment.

#### ***Net Cash Provided by Financing Activities***

Net cash provided by financing activities for the nine months ended September 30, 2016 and 2015 amounted to approximately \$5,498,000 and \$5,494,000, respectively. For the nine months ended September 30, 2016, the net cash provided by financing activities resulted primarily from the offering of equity securities for proceeds of approximately \$5,548,000, partially offset by the repayments of debt of \$50,000. For the nine months ended September 30, 2015, the net cash provided by financing activities resulted primarily from the offering of equity securities for proceeds of approximately \$5,644,000, partially offset by the repayment of debt of \$150,000.

### **Going Concern and Management's Liquidity Plans**

The accompanying condensed consolidated financial statements have been prepared assuming that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities and commitments in the normal course of business. As discussed in Note 2 to the accompanying condensed consolidated financial statements, we have not achieved a sufficient level of revenues to support our business and development activities and have suffered substantial recurring losses from operations since our inception, which conditions raise substantial doubt that we will be able to continue operations as a going concern. The accompanying condensed consolidated financial statements do not include any adjustments that might be necessary if we were unable to continue as a going concern.

Based on current cash on hand and subsequent activity as described herein, our cash-on-hand only allows us to operate our business operations through January 2017. While we are exploring opportunities with third parties and related parties to provide some or all of the capital we need over the short and long terms, we have not entered into any external agreement to provide us with the necessary capital. Historically, the Company has been successful in raising funds to support our capital needs. If we are unable to obtain additional financing on a timely basis, we may have to delay vendor payments and/or initiate cost reductions, which would have a material adverse effect on our business, financial condition and results of operations, and ultimately we could be forced to discontinue our operations, liquidate and/or seek reorganization under the U.S. bankruptcy code. As a result, our auditors have issued a going concern opinion in conjunction with their audit of our December 31, 2015 and 2014 consolidated financial statements.

### **Off-Balance Sheet Arrangements**

None.

### **Contractual Obligations**

As a smaller reporting company, we are not required to provide the information requested by paragraph (a)(5) of this Item.

### **Critical Accounting Policies and Estimates**

There are no material changes from the critical accounting policies set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations" set forth in our Annual Report on Form 10-K filed with the SEC on March 30, 2016, as amended on March 31, 2016. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

## **New Accounting Pronouncements**

We have implemented all new accounting standards that are in effect and may impact our condensed consolidated financial statements and we do not believe that there are any other new accounting standards that have been issued that might have a material impact on our financial position or results of operations, except as disclosed below.

In March 2016, the FASB issued ASU 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Several aspects of the accounting for share-based payment award transactions are simplified, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. We are currently evaluating the impact of the adoption of ASU 2016-09 on its consolidated financial statements or disclosures.

In April 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. The amendments in this update clarify the following two aspects to Topic 606: identifying performance obligations and the licensing implementation guidance, while retaining the related principles for those areas. The entity first identifies the promised goods or services in the contract and reduce the cost and complexity. An entity evaluates whether promised goods and services are distinct. Topic 606 includes implementation guidance on determining whether an entity's promise to grant a license provides a customer with either a right to use the entity's intellectual property (which is satisfied at a point in time) or a right to access the entity's intellectual property (which is satisfied over time). We are currently evaluating the impact of the adoption of ASU 2016-10 on its consolidated financial statements or disclosures.

In May 2016, the Financial Accounting Standards Board issued Accounting Standards Update No. 2016-12, "Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients" ("Update 2016-12"), amending Update 2014-09. The amendments do not change the core principles of Update 2014-09, but clarify matters related to assessment of a collectability criterion, presentation of sales and other taxes collected from customers, non-cash consideration, contract modifications at transition and completed contracts at transition. The requirements for these standards relating to Topic 606 will be effective for interim and annual periods beginning after December 15, 2017. Early adoption is permitted for interim and annual periods beginning after December 15, 2016. We are currently evaluating the impact of the updated requirements on its consolidated financial statements.

In August 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") 2016-15, "Statement of Cash Flows - Classification of Certain Cash Receipts and Cash Payments (Topic 230)" which provides guidance on the presentation and classification of certain cash receipts and cash payments in the statement of cash flows in order to reduce diversity in practice. The ASU is effective for interim and annual periods beginning after December 15, 2017 with early adoption permitted. We are currently evaluating the impact of adopting this standard on its condensed consolidated financial statements.

### **Item 3. Quantitative and Qualitative Disclosure About Market Risk**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item.

### **Item 4: Controls and Procedures**

#### *Disclosure Controls and Procedures*

Our management carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer (who is our Principal Executive Officer) and our Chief Financial Officer (who is our Principal Financial Officer and Principal Accounting Officer), of the effectiveness of the design of our disclosure controls and procedures (as defined by Exchange Act Rules 13a-15(e) or 15d-15(e)) as of September 30, 2016, pursuant to Exchange Act Rule 13a-15(b). Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2016.

#### *Changes in Internal Control over Financial Reporting*

During the nine months ended September 30, 2016, there were no changes in our internal controls over financial reporting, or in other factors that could significantly affect these controls, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### *Inherent Limitations of Controls*

Management does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all error and all fraud. Controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or deterioration in the degree of compliance with the policies or procedures. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

## **PART II - OTHER INFORMATION**

### **Item 1. Legal Proceedings**

From time to time AWLD and its subsidiaries and affiliates are subject to litigation and arbitration claims incidental to its business. Such claims may not be covered by its insurance coverage, and even if they are, if claims against AWLD and its subsidiaries are successful, they may exceed the limits of applicable insurance coverage. Additionally, as participants in the heavily-regulated securities industry, CAP and its associated persons have been named as respondents in certain regulatory proceedings.

#### **Certain Regulatory Matters and Customer Arbitrations**

##### *Customer Arbitrations and Complaints*

There are no pending customer arbitrations or complaints pertaining to DPEC Capital or any of its associated persons.

### **Item 1A. Risk Factors**

As a “smaller reporting company” as defined by Item 10 of Regulation S-K, we are not required to provide information required by this Item. However, our current risk factors are set forth in our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC on March 30, 2016, as amended on March 31, 2016.

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

#### **Issuances of Shares, Options and Warrants**

Between September 1, 2016 and November 11, 2016, Algodon Wines & Luxury Development Group, Inc. (the “Company”) issued 763,289 shares of its common stock at a price of \$2.00 per share to accredited investors in a private placement transaction for gross proceeds of \$1,526,577. Commissions in the form of cash of \$152,657 and 76,329 warrants to purchase common stock at \$2.00 per share were paid to DPEC Capital, Inc., the Company’s registered broker dealer subsidiary in connection with these share issuances. DPEC Capital, Inc., in turn, awarded such warrants to its registered representatives. The investors and registered representatives all had sufficient knowledge and experience in financial, investment and business matters to be capable of evaluating the merits and risks of investment in the Company and able to bear the risk of loss. For this sale of securities, the Company relied on the exemption from registration available under Section 4(a)(2) and Rule 506(b) of Regulation D promulgated under the Securities Act with respect to transactions by an issuer not involving any public offering. No general solicitation was used in this offering. A Form D was filed on October 8, 2015.

On July 11, 2016, the Board of Directors of the Company adopted the 2016 Stock Option Plan (the “2016 Plan”). On July 19, 2016, options to purchase a total of 400,000 shares were granted to two directors at an exercise price of \$2.20 per share. On October 20, 2016, the Board adopted amendments to the 2016 Plan to clarify certain items in Section 2—Definitions and Section 4—Shares Available for Awards. On or about October 20, 2016, the Company granted options to purchase a total of 500,000 shares of common stock at an exercise price of \$2.20 to certain employees of the Company pursuant to the 2016 Stock Option Plan, as amended.

Other than previously reported, there have been no unregistered sales of equity securities during the nine month period ended September 30, 2016.

### **Quotation on OTC Bulletin Board and OTC Link**

On January 20, 2016 FINRA cleared the Company's request to submit quotations on the OTC Bulletin Board and in OTC Link. In addition, the Company submitted its application for quotation on the OTCQB marketplace which was approved on March 7, 2016. The first trade on the over-the-counter market occurred on September 23, 2016.

### **Item 3. Defaults upon Senior Securities**

None.

### **Item 4. Mine and Safety Disclosure**

Not applicable.

### **Item 5. Other Information**

On or about October 28, 2016, the Company terminated its agreement with Maxim Group LLC ("Maxim") to provide general financial advisory and investment banking services to the Company. In connection with the termination, the Company is currently in negotiations with Maxim for a return of a portion of the 350,000 shares of common stock valued at \$2.50 per share previously issued to Maxim but there can be no assurance that any shares will be returned.

## Item 6. Exhibits

The following is a complete list of exhibits filed as part of this Form 10-Q. Exhibit numbers correspond to the numbers in the Exhibit Table of Item 601 of Regulation S-K.

| <b>Exhibit</b> | <b>Description</b>  |
|----------------|---|
| 3.1            | Amended and Restated Certificate of Incorporation filed September 30, 2013 <sup>(1)</sup>   |
| 3.2            | Amended and Restated Bylaws <sup>(1)</sup>  |
| 3.3            | Amended and Restated Certificate of Designation of the Series A Preferred filed September 30, 2013 <sup>(1)</sup>   |
| 4.1            | 2016 Stock Option Plan as adopted by the Board of Directors on July 11, 2016.*  |
| 4.2            | First Amendment to 2016 Stock Option Plan as adopted by the Board of Directors on October 20, 2016.*  |
| 10.1           | Investor Relations Consulting Agreement between MZHCI, LLC and the Company, dated April 8, 2016 <sup>(3)</sup>  |
| 31.1           | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act.*  |
| 31.2           | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act.*  |
| 32             | Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S. C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act.** |
| 101.INS        | XBRL Instance Document*   |
| 101.SCH        | XBRL Taxonomy Extension Schema Document*  |
| 101.CAL        | XBRL Taxonomy Extension Calculation Linkbase Document*  |
| 101.DEF        | XBRL Taxonomy Extension Definition Linkbase Document*   |
| 101.LAB        | XBRL Taxonomy Extension Label Linkbase Document*  |
| 101.PRE        | XBRL Taxonomy Extension Presentation Linkbase Document*   |
| (1)            | Incorporated by reference from the Company's Registration of Securities Pursuant to Section 12(g) on Form 10 dated May 14, 2014.                                    |
| (2)            | Incorporated by reference to the Company's Annual Report on Form 10-K dated March 30, 2016, as amended on March 31, 2016.   |
| (3)            | Incorporate by reference to the Company's Form 10-Q filed on May 16, 2016.  |
| *              | Filed herewith.   |
| **             | Furnished and not filed herewith.   |

**SIGNATURES**

Pursuant to the requirements of Section 12 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.

Date: November 14, 2016

**ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC.**

By: /s/ Scott L. Mathis  
Scott L. Mathis  
Chief Executive Officer

By: /s/ Maria Echevarria  
Maria Echevarria  
Chief Financial Officer and Chief Operating Officer





**CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

I, Scott L. Mathis, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Algodon Wines & Luxury Development Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2016

By: /s/ Scott L. Mathis

Name: Scott L. Mathis

Title: Chief Executive Officer

(Principal Executive Officer)

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**CERTIFICATION PURSUANT TO RULE 13a-14(a) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

I, Maria Echevarria, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Algodon Wines & Luxury Development Group, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

November 14, 2016

By: /s/ Maria Echevarria

Name: Maria I. Echevarria

Title: Chief Financial Officer

(Principal Financial and Accounting Officer)

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

In connection with the Quarterly Report of Algodon Wines & Luxury Development Group, Inc. (the “Company’s Quarterly Report”) on Form 10-Q for the period ended September 30, 2016, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), Scott L. Mathis, as Chief Executive Officer and principal executive officer and Maria I. Echevarria, as Chief Financial Officer and principal financial officer of the Company hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, to the best of the undersigned’s knowledge and belief, that:

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. Information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

*/s/ Scott L. Mathis*

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Scott L. Mathis  
Chief Executive Officer and Principal Executive Officer

Dated: November 14, 2016

*/s/ Maria I. Echevarria*

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Maria I. Echevarria  
Chief Financial Officer and Principal Financial Officer

Dated: November 14, 2016

This certification accompanies this Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

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