
**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, 2018

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

Algodon 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)

212-739-7700

(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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
Emerging growth company	<input type="checkbox"/>		

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

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

As of November 19, 2018, there were 46,687,999 shares of common stock outstanding.

ALGODON GROUP, INC. AND SUBSIDIARIES

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements

**ALGODON GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS**

	<u>September 30, 2018</u> (unaudited)	<u>December 31, 2017</u>
Assets		
Current Assets		
Cash	\$ 42,062	\$ 358,303
Accounts receivable, net of allowance of \$2,772 and \$3,421 at September 30, 2018 and December 31, 2017, respectively	155,186	188,067
Accounts receivable - related parties, net of allowance of \$514,087 at each of September 30, 2018 and December 31, 2017	137,396	851,016
Advances and loans to employees	280,776	284,496
Inventory	1,049,265	1,388,666
Real estate lots held for sale	22,267	151,906
Prepaid expenses and other current assets	174,459	159,465
Total Current Assets	1,861,411	3,381,919
Property and equipment, net	3,016,693	4,532,890
Prepaid foreign taxes, net of deferred tax reserve of \$249,727 and \$392,593 at September 30, 2018 and December 31, 2017, respectively	311,900	342,312
Investment - related parties	8,845	26,401
Deposits	61,284	61,284
Total Assets	\$ 5,260,133	\$ 8,344,806
Liabilities, Temporary Equity and Stockholders' Deficiency		
Current Liabilities		
Accounts payable	\$ 529,485	\$ 415,318
Accrued expenses, current portion	807,185	1,000,521
Deferred revenue	672,292	1,732,664
Loans payable, current portion, net of debt discount	355,944	256,724
Convertible debt obligations, net of debt discount	1,557,355	20,000
Current portion of other liabilities	98,729	19,156
Total Current Liabilities	4,020,990	3,444,383
Accrued expenses, non-current portion	106,391	247,515
Other liabilities, non-current portion	-	11,474
Loans payable, non-current portion, net of debt discount	763,881	634,930
Total Liabilities	4,891,262	4,338,302
Commitments and Contingencies		
Series B convertible redeemable preferred stock, par value \$0.01 per share, 902,670 shares authorized, 902,670 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively. Liquidation preference of \$9,471,781 at September 30, 2018.	9,026,824	9,026,824
Stockholders' Deficiency		
Preferred stock, 11,000,000 shares authorized; Series A convertible preferred stock, par value \$0.01 per share; 10,097,330 shares authorized; no shares are available for issuance.	-	-
Common stock, par value \$0.01 per share; 80,000,000 shares authorized; 46,738,532 and 43,067,546 shares issued and 46,687,999 and 43,063,135 shares outstanding as of September 30, 2018 and December 31, 2017, respectively.	467,384	430,674
Additional paid-in capital	83,663,629	80,902,967
Accumulated other comprehensive loss	(11,991,301)	(10,795,810)
Accumulated deficit	(80,751,310)	(75,544,081)
Treasury stock, at cost, 50,533 and 4,411 shares at September 30, 2018 and December 31, 2017, respectively.	(46,355)	(14,070)
Total Stockholders' Deficiency	(8,657,953)	(5,020,320)
Total Liabilities, Temporary Equity and Stockholders' Deficiency	\$ 5,260,133	\$ 8,344,806

See Notes to the Condensed Consolidated Financial Statements

ALGODON GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

	For the three months ended September 30,		For the nine months ended September 30,	
	2018	2017	2018	2017
Sales	\$ 439,982	\$ 273,135	\$ 2,114,297	\$ 1,304,967
Cost of sales	(305,757)	(326,035)	(1,267,592)	(1,364,635)
Gross profit (loss)\	134,235	(52,900)	846,705	(59,668)
Operating Expenses				
Selling and marketing	52,926	95,664	210,729	303,414
General and administrative	1,277,783	1,563,251	5,268,174	4,980,668
Depreciation and amortization	44,473	57,100	133,891	122,072
Total operating expenses	1,375,182	1,716,015	5,612,794	5,406,154
Loss from Operations	(1,240,947)	(1,768,915)	(4,476,089)	(5,465,822)
Other (Expense) Income				
Interest expense, net	(92,972)	(104,134)	(499,719)	(239,467)
Gain on sale of investment in subsidiary	-	-	-	199,200
Gain on foreign currency translation	58,579	-	58,579	-
Total other (expense) income	(34,393)	(104,134)	(441,140)	(40,267)
Loss from Continuing Operations	(1,275,340)	(1,873,049)	(5,207,229)	(5,506,089)
Loss from Discontinued Operations	-	-	-	(106,543)
Net Loss	(1,275,340)	(1,873,049)	(5,207,229)	(5,612,632)
Series B preferred stock dividends	(225,998)	(133,860)	(539,311)	(185,196)
Net Loss Attributable to Common Stockholders	\$ (1,501,338)	\$ (2,006,909)	\$ (5,746,540)	\$ (5,797,828)
Net Loss per Basic and Diluted Common Share:				
Loss from continuing operations	\$ (0.03)	\$ (0.04)	\$ (0.13)	\$ (0.13)
Loss from discontinued operations	-	-	-	-
Net Loss per Common Share	\$ (0.03)	\$ (0.04)	\$ (0.13)	\$ (0.13)
Weighted Average Number of Common Shares Outstanding:				
Basic and Diluted	46,159,288	43,036,406	44,223,334	42,982,321

See Notes to the Condensed Consolidated Financial Statements

ALGODON 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,	
	2018	2017	2018	2017
Net Loss	\$ (1,275,340)	\$ (1,873,049)	\$ (5,207,229)	\$ (5,612,632)
Other Comprehensive Loss:				
Foreign currency translation adjustments	(325)	(245,800)	(1,195,491)	(262,187)
Total Comprehensive Loss	\$ (1,275,665)	\$ (2,118,849)	\$ (6,402,720)	\$ (5,874,819)

See Notes to the Condensed Consolidated Financial Statements

ALGODON GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN TEMPORARY EQUITY AND STOCKHOLDERS'
DEFICIENCY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(unaudited)

	Series B Convertible Redeemable Preferred Stock		Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' Deficiency
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance - December 31, 2017	902,670	\$ 9,026,824	43,067,546	\$ 430,674	4,411	\$ (14,070)	\$ 80,902,967	\$ (10,795,810)	\$ (75,544,081)	\$ (5,020,320)
Stock-based compensation:										
Common stock issued under 401(k) profit sharing plan	-	-	116,284	1,163	-	-	80,236	-	-	81,399
Options and warrants	-	-	-	-	-	-	565,436	-	-	565,436
Common stock issued for cash	-	-	1,890,993	18,911	-	-	1,304,784	-	-	1,323,695
Beneficial conversion feature on convertible debt issued	-	-	-	-	-	-	227,414	-	-	227,414
Common stock issued upon conversion of convertible debt and interest	-	-	1,285,516	12,855	-	-	797,020	-	-	809,875
Dividends declared on Series B convertible redeemable preferred stock	-	-	-	-	-	-	(474,719)	-	-	(474,719)
Common stock issued in satisfaction of dividends payable	-	-	378,193	3,781	-	-	260,491	-	-	264,272
Common stock returned to the Company to satisfy receivable	-	-	-	-	46,122	(32,285)	-	-	-	(32,285)
Comprehensive loss:										
Net loss	-	-	-	-	-	-	-	-	(5,207,229)	(5,207,229)
Other comprehensive loss	-	-	-	-	-	-	-	(1,195,491)	-	(1,195,491)
Balance - September 30, 2018	<u>902,670</u>	<u>\$ 9,026,824</u>	<u>46,738,532</u>	<u>\$ 467,384</u>	<u>50,533</u>	<u>\$ (46,355)</u>	<u>\$ 83,663,629</u>	<u>\$ (11,991,301)</u>	<u>\$ (80,751,310)</u>	<u>\$ (8,657,953)</u>

See Notes to the Condensed Consolidated Financial Statements

ALGODON GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

	For the nine months ended September 30,	
	2018	2017
Cash Flows from Operating Activities		
Net loss	\$ (5,207,229)	\$ (5,612,632)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation:		
401(k) stock	47,883	59,680
Options and warrants	565,436	462,036
Unrealized foreign exchange gain	(58,579)	-
Net realized and unrealized investment losses	17,556	12,707
Depreciation and amortization	133,891	122,072
Amortization of debt discount	250,265	1,389
Provision for uncollectible assets	(142,499)	9,000
Gain on sale of investment in subsidiary	-	(199,200)
Decrease (increase) in assets:		
Accounts receivable	518,372	(218,608)
Inventory	(11,267)	(169,659)
Prepaid expenses and other current assets	(198,757)	(8,594)
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	296,130	(773,483)
Deferred revenue	(551,347)	(81,314)
Other liabilities	79,573	645
Total Adjustments	946,657	(783,329)
Net Cash Used in Operating Activities	(4,260,572)	(6,395,961)
Cash Flows from Investing Activities		
Purchase of property and equipment	(370,696)	(440,856)
Proceeds from sale of investment in subsidiary	-	199,200
Net Cash Used in Investing Activities	(370,696)	(241,656)
Cash Flows from Financing Activities		
Proceeds from loans payable	580,386	517,244
Repayments of loans payable	(165,037)	(32,328)
Proceeds from convertible debt obligations	2,332,230	1,260,000
Repayments of debt obligations	-	(140,000)
Dividends paid in cash	(129,297)	(60,515)
Proceeds from sale of Series B preferred stock	-	6,352,319
Proceeds from common stock offering, net of issuance costs	1,323,695	40,500
Net Cash Provided by Financing Activities	3,941,977	7,937,220
Effect of Exchange Rate Changes on Cash	373,050	(9,082)
Net (Decrease) Increase in Cash	(316,241)	1,290,521
Cash - Beginning of Period	358,303	131,190
Cash - End of Period	\$ 42,062	\$ 1,421,711

See Notes to the Condensed Consolidated Financial Statements

ALGODON GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS, continued
(unaudited)

	For the nine months ended September 30,	
	2018	2017
Supplemental Disclosures of Cash Flow Information:		
Interest paid	\$ 296,930	\$ 123,614
Income taxes paid	\$ -	\$ 27,775
Non-Cash Investing and Financing Activity		
Accrued stock-based compensation converted to equity	\$ 81,399	\$ 73,868
Debt and interest payable converted to equity	\$ 809,875	\$ 1,267,324
Common stock returned to Company to satisfy receivable	\$ 32,285	\$ -
Beneficial conversion feature	\$ 227,414	\$ -
Dividends declared on Series B Convertible Redeemable Preferred Stock	\$ 474,719	\$ -
Common stock issued to satisfy dividends payable	\$ 264,272	\$ -
Common stock issued in satisfaction of deferred revenue	\$ -	\$ 124,539
Land purchased in exchange for note payable	\$ -	\$ 517,390

See Notes to the Condensed Consolidated Financial Statements

ALGODON GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

1. ORGANIZATION

Algodon Group, Inc. (the “Company” or “Algodon”), a Delaware corporation, was incorporated on April 5, 1999. Effective October 1, 2018, the Company changed its name from Algodon Wines & Luxury Development, Inc. to Algodon Group, Inc. The Company currently invests in, develops and operates international real estate projects. The Company’s wholly-owned subsidiaries are InvestProperty Group, LLC, Algodon Global Properties, LLC, Algodon Europe, Ltd., and Gaucho Group.

Through its subsidiaries, the Company currently operates Algodon Mansion (“TAR”), a Buenos Aires-based luxury boutique hotel property and has redeveloped, expanded and repositioned an Argentine winery and golf resort property called Algodon Wine Estates (“AWE”) for subdivision of a portion of this property for residential development. The Company is also in the process of establishing and managing a new, wholly-owned subsidiary, Gaucho Group, a Delaware corporation, for the manufacture, distribution and sale of high-end fashion and accessories created in Argentina, through an e-commerce platform. Under the brand name Gaucho-Buenos Aires, the Gaucho Group is currently developing both its initial products for manufacture and sale and its e-commerce platform. The Gaucho Group has not yet begun to generate revenues.

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 from continuing operations of \$5,207,229 during the nine months ended September 30, 2018 and has an accumulated deficit of \$80,751,310 at September 30, 2018. Cash used in operating activities was \$4,260,572 for the nine months ended September 30, 2018. Based upon projected revenues and expenses, the Company believes that it may not have sufficient funds to operate for the next twelve months. The aforementioned factors raise substantial doubt about the Company’s ability to continue as a going concern.

The Company is currently funding operations on a month-to-month basis and needs to raise additional capital in order to continue to pursue its business objectives. The Company funded its operations during the nine months ended September 30, 2018 through the proceeds from convertible debt obligations of \$2,332,230, proceeds from loans payable of \$580,386, and net proceeds from the sale of common stock of \$1,323,695. The Company repaid debt of \$165,037 during the nine months ended September 30, 2018 and paid cash dividends of \$129,297 during the nine months ended September 30, 2018.

If the Company is not able to obtain additional sources of capital, it may not have sufficient funds to continue to operate the business for twelve months from the date these financial statements are issued. Historically, the Company has been successful in raising funds to support its 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. Further, 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 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, 2018, and for the three and nine months ended September 30, 2018 and 2017. The results of operations for the three and nine months ended September 30, 2018 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, 2017, filed with the Securities and Exchange Commission (“SEC”) on March 30, 2018. The condensed consolidated balance sheet as of December 31, 2017 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 assumptions of the Company include the valuation of equity instruments, the useful lives of property and equipment and reserves associated with the realizability of certain assets.

Discontinued Operations

The Company accounted for its decision to close down its broker-dealer subsidiary as discontinued operations in accordance with the guidance provided in the Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 360, “Accounting for Impairment or Disposal of Long-Lived Assets,” and ASC Topic 205, “Presentation of Financial Statements,” which require that only a disposal of a component of an entity, or a group of components of an entity, that represents a strategic shift that has, or will have, a major effect on the reporting entity’s operations and financial results shall be reported in the financial statements as discontinued operations. Accordingly, the results of operations for the broker dealer subsidiary during the periods presented are reclassified into a separate line item in the statements of operations. There were no assets or liabilities of discontinued operations as of September 30, 2018 or December 31, 2017.

Segment Information

The FASB has established standards for reporting information on operating segments of an enterprise in interim and annual financial statements. The Company currently 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.

ALGODON GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Highly Inflationary Status in Argentina

The International Practices Task Force (“IPTF”) of the Center for Audit Quality discussed the inflationary status of Argentina at its meeting on May 16, 2018 and categorized Argentina as a country with a projected three-year cumulative inflation rate greater than 100%. Therefore, the Company has transitioned its Argentine operations to highly inflationary status as of July 1, 2018. Accordingly, the functional currency for Argentina has changed to the U.S. dollar, which is Algodon’s reporting currency.

For operations in highly inflationary economies, monetary asset and liabilities are translated at the exchange rate in effect at the balance sheet date. Any resulting exchange gains and losses are recorded in income and are reflected in gain on foreign currency translation on the accompanying statements of operations. Nonmonetary assets and liabilities, which include inventories, pre-paid expenses, property, plant and equipment and deferred revenues, are translated at their historical dollar cost. The historical cost of non-monetary assets and liabilities in existence as of the date of the Company’s transition to highly inflationary accounting was calculated using the exchange rate at June 30, 2018. During the three months and nine months ended September 30, 2018, the Company recorded a \$58,579 gain on foreign currency translation as a result of the net monetary liability position of its Argentine subsidiaries.

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) except for the Company’s Argentine subsidiaries for the three-month period ended September 30, 2018, as described above. Accordingly, these foreign subsidiaries translate assets and liabilities from their local currencies to U.S. dollars using period end exchange rates while income and expense accounts are translated at the average rates in effect during the period. The resulting translation adjustment is recorded as part of other comprehensive income (loss), a component of shareholders’ deficit. The Company engages in foreign currency denominated transactions with customers and suppliers, as well as between subsidiaries with different functional currencies. Gains and losses resulting from transactions denominated in non-functional currencies are recognized in earnings.

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.

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. Such costs are allocated to individual lots proportionately based on square meters and those allocated costs will be derecognized upon the sale of individual lots. Given that they are not currently in service, capitalized real estate development costs are currently not being depreciated. Land is an inexhaustible asset and is not depreciated.

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 on the grant date, computed using the Black-Scholes pricing model. The grant date fair value of awards to employees and non-employees are recognized over the period for which services are required to be provided in exchange for the award, usually the vesting period. The Company accounts for forfeitures as they occur.

ALGODON GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

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 \$23,873 and \$146,952 at September 30, 2018 and December 31, 2017, respectively, of which \$23,873 and \$92,168, respectively, represents cash held in Argentine bank accounts.

Comprehensive Income (Loss)

Comprehensive income 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, except for foreign currency translation adjustments from highly inflationary economies, which are reflected on the statements of operations as gain (loss) on foreign currency translation.

Revenue Recognition

On January 1, 2018, the Company adopted ASC Topic 606, Revenue from Contracts with Customers. ASC Topic 606 provides a single comprehensive model to use in accounting for revenue arising from contracts with customers, and gains and losses arising from transfers of non-financial assets including sales of property and equipment, real estate, and intangible assets. The Company adopted ASC Topic 606 for all applicable contracts using the modified retrospective method, requires a cumulative-effect adjustment, if any, as of the date of adoption. The adoption of ASC Topic 606 did not have a material impact on the Company’s consolidated financial statements as of the date of adoption, and therefore a cumulative-effect adjustment was not required.

The Company earns revenues from the sale of real estate lots and sales of food and wine as well as hospitality, food & beverage, and other related services. The Company recognizes revenue when goods or services are transferred to customers in an amount that reflects the consideration which it expects to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, the Company performs the following five-step analysis: (i) identification of contract with customer; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) the Company satisfies each performance obligation.

The following table summarizes the revenue recognized in the Company’s condensed consolidated statements of operations:

	For The Three Months		For The Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Real estate sales	\$ -	\$ -	\$ 877,036	\$ -
Hotel room and events	194,848	119,585	582,427	544,084
Restaurants	64,224	58,443	220,494	226,593
Winemaking	68,055	91,433	295,226	391,183
Golf, tennis and other	112,855	3,674	139,114	143,107
	<u>\$ 439,982</u>	<u>\$ 273,135</u>	<u>\$ 2,114,297</u>	<u>\$ 1,304,967</u>

ALGODON GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

Revenue from real estate lot sales is recorded when the lot is deeded, and legal ownership of the lot is transferred to the customer. Revenue from the sale of food, wine and agricultural products is recorded when the customer obtains control of the goods purchased. Revenues from hospitality and other services are recognized as earned at the point in time that the related service is rendered, and the performance obligation has been satisfied.

The timing of the Company's revenue recognition may differ from the timing of payment by its customers. A receivable is recorded when revenue is recognized prior to payment and the Company has an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, the Company records deferred revenue until the performance obligations are satisfied. 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, advance deposits received for grapes and other agricultural products, and hotel deposits. Wine barrel and agricultural product advance deposits are recognized as revenues (along with any outstanding balance) when the product is shipped to the purchaser. Hotel deposits are recognized as revenue upon occupancy of rooms, or the provision of services.

During the three and nine months ended September 30, 2018 the Company recognized approximately \$0 and \$877,036, respectively, of revenues related to the sale of real estate lots which was included in deferred revenues as of December 31, 2017. For the three and nine months ended September 30, 2018, the Company did not recognize any revenue related to performance obligations satisfied in previous periods. Contracts related to the sale of wine, agricultural products and hotel services have an original expected length of less than one year. The Company has elected not to disclose information about remaining performance obligations pertaining to contracts with an original expected length of one year or less, as permitted under the guidance.

As of September 30, 2018 and December 31, 2017, the Company had deferred revenue of \$645,732 and \$1,690,224, respectively, associated with real estate lot sale deposits, and had \$26,560 and \$42,440, respectively, of deferred revenue related to hotel deposits. 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.

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:

	September 30,	
	2018	2017
Options	9,473,593	7,839,265
Warrants	1,332,045	1,903,730
Series B convertible preferred stock	9,029,700	-
Convertible debt	2,532,606	7,619,210
Total potentially dilutive shares	22,367,944	17,362,205

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New Accounting Pronouncements

In February 2016, the FASB issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842)”, which increases the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 will require lessees to recognize a right-of-use (ROU) asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation for leases with terms of more than twelve months. Both the ROU asset and lease liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either a finance or an operating lease. Accounting by lessors will remain largely unchanged from current U.S. GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, and interim periods within those years, with early adoption permitted, and is to be applied as of the beginning of the earliest period presented using a modified retrospective approach. In July 2018, the FASB issued ASU 2018-11, “Leases (Topic 842): Targeted Improvements”, which allows entities the option to adopt this standard prospectively with a cumulative-effect adjustment to opening equity and include required disclosures for prior periods. The Company has identified its arrangements that are within the scope of the new guidance and continues to evaluate their potential impact on its consolidated financial statements and related disclosures. Upon adoption of ASU 2016-02, the Company does not expect material changes to the recognition of rent expense in its consolidated statements of operations; however, the adoption of ASU 2016-02 is expected to have a material impact on the Company’s consolidated balance sheet due to the requirement to recognize right-of-use assets and lease liabilities.

In August 2016, the FASB issued 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 adoption of ASU 2016-15 did not have a material effect on the Company’s condensed consolidated financial statements and related disclosures.

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On February 22, 2017, the FASB issued ASU 2017-05, “Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Topic 610-20)”, which requires that all entities account for the derecognition of a business in accordance with ASC 810, including instances in which the business is considered in substance real estate. The ASU is effective for annual periods, and interim periods therein, beginning after December 15, 2017. The adoption of the provisions of ASU 2017-05 did not have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In May 2017, the FASB issued ASU No. 2017-09, “Compensation - Stock Compensation (Topic 718); Scope of Modification Accounting”. The amendments in this ASU provide guidance that clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. If the value, vesting conditions or classification of the award changes, modification accounting will apply. The guidance is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The adoption of ASU 2017-09 did not have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

On June 20, 2018, the FASB issued ASU No. 2018-07, “Compensation—Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting”, which expands the scope of ASC 718, Compensation—Stock Compensation to include share-based payment transactions for acquiring goods and services from nonemployees. ASU 2018-07 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company elected to early adopt ASU 2018-07 on July 1, 2018. The results of applying ASU 2018-07 did not have a material impact on the Company’s condensed consolidated financial statements and related disclosures.

In July 2018, the FASB issued ASU No. 2018-09, “Codification Improvements” (“ASU 2018-09”). ASU 2018-09 provides amendments to a wide variety of topics in the FASB’s Accounting Standards Codification, which applies to all reporting entities within the scope of the affected accounting guidance. The transition and effective date guidance is based on the facts and circumstances of each amendment. Some of the amendments in ASU 2018-09 do not require transition guidance and were effective upon issuance of ASU 2018-09. However, many of the amendments do have transition guidance with effective dates for annual periods beginning after December 15, 2018. The Company is currently evaluating the potential impact that adopting the applicable guidance will have on the Company’s consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement - Disclosure Framework (Topic 820). The updated guidance improves the disclosure requirements on fair value measurements. The updated guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted for any removed or modified disclosures. The Company is currently assessing the timing and impact of adopting the updated provisions.

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.

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4. DISCONTINUED OPERATIONS

On November 29, 2016, the Company's Board of Directors determined that it was in the Company's best interest to close down its broker-dealer operations on December 31, 2016. On February 21, 2017, the Company's request to FINRA for Broker-Dealer Withdrawal became effective.

Results of Discontinued Operations

There were no results of discontinued operations during the three and nine months ended September 30, 2018, or for the three months ended September 30, 2017. Results of discontinued operations for the nine months ended September 30, 2017 were as follows:

Revenues	\$	-
Gross profit		-
Operating expenses		(106,564)
Interest income		21
Loss from discontinued operations	\$	<u>(106,543)</u>

5. INVENTORY

Inventory is comprised of the following:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Vineyard in process	\$ 160,036	\$ 349,458
Wine in process	756,323	865,762
Finished wine	15,539	63,964
Other	117,367	109,482
	<u>\$ 1,049,265</u>	<u>\$ 1,388,666</u>

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Real estate lots held for sale	22,267	151,906
Total	<u>\$ 22,267</u>	<u>\$ 151,906</u>

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6. INVESTMENTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

The Company holds certain affiliate warrants earned by the broker-dealer subsidiary prior to its discontinuation of operations, which are marked to market at each reporting date using the Black-Scholes option pricing model. The Company recorded unrealized losses on the affiliate warrants of \$1,105 and \$17,556 during the three and nine months ended September 30, 2018, respectively, and \$4,539 and \$12,707 during the three and nine months ended September 30, 2017, respectively, which are included in revenue on the accompanying condensed consolidated statements of operations.

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

Investments – Related Parties at Fair Value

<u>As of September 30, 2018</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Warrants- Affiliates	\$ -	\$ -	\$ 8,845	\$ 8,845
<u>As of December 31, 2017</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Warrants- Affiliates	\$ -	\$ -	\$ 26,401	\$ 26,401

A reconciliation of Level 3 assets is as follows:

<u>Warrants</u>	
Balance - December 31, 2017	\$ 26,401
Unrealized loss	(17,556)
Balance - September 30, 2018	<u>\$ 8,845</u>

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Accumulated unrealized losses related to investments at fair value	<u>\$ (20,308)</u>	<u>\$ (40,447)</u>

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7. ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	<u>September 30, 2018</u>	<u>December 31, 2017</u>
Accrued compensation and payroll taxes	\$ 327,316	\$ 463,604
Accrued taxes payable - Argentina	35,034	63,550
Accrued interest	336,997	255,481
Other accrued expenses	107,838	217,886
Accrued expenses, current	807,185	1,000,521
Accrued payroll tax obligations, non-current	106,391	247,515
Total accrued expenses	<u>\$ 913,576</u>	<u>\$ 1,248,036</u>

8. LOANS PAYABLE

On March 31, 2017, the Company received a bank loan in the amount of \$519,156 (ARS \$8,000,000) (the “2017 Loan”). The 2017 Loan bears interest at 24.18% per annum and is due on March 1, 2021. Principal and interest will be paid in forty-two monthly installments beginning on October 1, 2017 and ending on March 1, 2021. The Company incurred interest expense on this loan of \$16,826 and \$59,614 during the three and nine months ended September 30, 2018, respectively, and incurred interest of expense on this loan of \$29,285 and \$55,127 during the three and nine months ended September 30, 2017, respectively. As of September 30, 2018, the balance on the 2017 Loan is \$163,885, of which \$56,224 is recorded in loans payable, net, current and \$107,661 is recorded in loans payable, net, non-current in the accompanying condensed consolidated balance sheets. Of the decrease in principal of \$248,182 on the 2017 Loan during the nine months ended September 30, 2018, \$38,117 resulted from principal payments made and \$210,065 resulted from the effect of fluctuations in the foreign currency exchange rate during the period.

On August 19, 2017, the Company purchased 845 hectares of land adjacent to its existing property at AWE. The Company paid \$100,000 at the date of purchase and executed a note payable in the amount of \$600,000, denominated in U.S. dollars (the “Land Loan”) with a stated interest rate of 0% and with quarterly payments of \$50,000 beginning on December 18, 2017 and ending August 18, 2021. At the date of purchase, the Company took possession of the property, with full use and access, but will not receive the deed to the property until after \$400,000 of the purchase price has been paid. The Company imputed interest on the note at 7% per annum and recorded a discounted note balance of \$517,390 on August 19, 2017. Amortization of the note discount in the amount of \$7,984 and \$22,941 for the three and nine months ended September 30, 2018, respectively, and amortization of the note discount in the amount of \$1,389 for the three and nine months ended September 30, 2017, is recorded as interest expense on the accompanying condensed consolidated statements of operations. The balance on the note was \$452,458, net of debt discount of \$47,542 on September 30, 2018, of which \$174,560 (net of discount of \$25,440) is included in loans payable, net, current and \$277,899 (net of discount of \$22,101) is included in loans payable, net, non-current in the accompanying condensed consolidated balance sheets.

On January 25, 2018 the Company received a bank loan in the amount of \$525,000 (the “2018 Loan”), denominated in U.S. dollars. The 2018 Loan bears interest at 6.75% per annum and is due on January 25, 2023. Principal and interest will be paid in 60 equal monthly installments of \$10,311, beginning on February 23, 2018. The Company incurred interest expense of \$7,989 and \$22,042 on this loan during the three and nine months ended September 30, 2018, respectively.

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On June 4, 2018 the Company received a loan in the amount of \$55,386 (ARS \$1,600,000) which bears interest at 10% per month and is due upon demand of the lender (the "Demand Loan"). Interest is paid monthly. The Company incurred interest expense on this loan of \$13,919 and \$20,751, respectively, during the three and nine months ended September 30, 2018. The decrease in the principal balance of the Demand Loan during the period is the result of changes in the foreign currency exchange rate during the period.

The Company's loans payable are summarized below:

	<u>September 30, 2018</u>			<u>December 31, 2017</u>		
	<u>Gross Principal Amount</u>	<u>Debt Discount</u>	<u>Loans Payable, Net of Debt Discount</u>	<u>Gross Principal Amount</u>	<u>Debt Discount</u>	<u>Loans Payable, Net of Debt Discount</u>
Demand Loan	\$ 14,372	\$ -	\$ 14,372	\$ -	\$ -	\$ -
2018 Loan	489,110	-	489,110	-	-	-
2017 Loan	163,885	-	163,885	412,047	-	412,047
Land Loan	500,000	(47,542)	452,458	550,000	(70,393)	479,607
Total Loans Payable	<u>1,167,367</u>	<u>(47,542)</u>	<u>1,119,825</u>	<u>962,047</u>	<u>(70,393)</u>	<u>891,654</u>
Less: current portion	381,384	(25,440)	355,944	287,838	(31,114)	256,724
Loans Payable, non-current	<u>\$ 785,983</u>	<u>\$ (22,102)</u>	<u>\$ 763,881</u>	<u>\$ 674,209</u>	<u>\$ (39,279)</u>	<u>\$ 634,930</u>

9. CONVERTIBLE DEBT OBLIGATIONS

During an offering that ended on September 30, 2010, the Company issued convertible notes with an interest rate of 8% and an amended maturity date of March 31, 2011 (the "2010 Debt Obligations"). The Company incurred interest expense of \$9,464 and \$27,863 during the three and nine months ended September 30, 2018, respectively, and \$9,463 and \$27,863 during the three and nine months ended September 30, 2017, respectively, on the 2010 Debt Obligations. As of December 31, 2017, the entire principal balance owed on the 2010 Debt Obligations has been repaid, however, accrued interest of \$283,343 and \$255,481 remained outstanding as of September 30, 2018, and December 31, 2017, respectively. Accrued interest on the 2010 Debt Obligations is not convertible.

On December 31, 2017, the Company sold a convertible promissory note in the amount of \$20,000 to an accredited investor. From February 2, 2018 through April 26, 2018, the Company sold additional convertible promissory notes in the aggregate principal amount of \$2,026,730 (together, the "Convertible Notes"). The Convertible Notes mature 90 days from the date of issuance, bear interest at 8% per annum and are convertible into the Company's common stock at \$0.63 per share, which represented a 10% discount to the price used for the sale of the Company's common stock at the commitment date. The conversion option represented a beneficial conversion feature in the amount of \$227,414 which was recorded as a debt discount with a corresponding credit to additional paid-in capital. The Company incurred total interest expense of \$33,026 and \$293,259, respectively, related to this debt during the three and nine months ended September 30, 2018, of which \$7,821 and \$227,414, respectively, represented amortization of debt discount.

On June 30, 2018, principal and interest of \$794,875 and \$15,000, respectively, owed on the Convertible Notes were converted into 1,285,516 shares of common stock at a conversion price of \$0.63 per share. The remaining principal balance owed on the Convertible Notes of \$1,251,854 is past due as of September 30, 2018.

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Between June 30, 2018 and September 11, 2018, the Company sold convertible promissory notes (the “Gaucho Notes”) in the amount of \$305,500 to accredited investors. The Gaucho Notes bear interest at 7% per annum and mature on December 31, 2018. The Gaucho Notes and related accrued interest will be convertible into Gaucho Group common stock at the option of the holder, at a price representing 20% discount to the share price in a future offering of Gaucho Group common stock. The Company incurred total interest expense of \$2,808 related to the Gaucho Notes during the three and nine months ended September 30, 2018.

The Company’s debt obligations as of September 30, 2018 and December 31, 2017 are summarized below:

	September 30, 2018			December 31, 2017		
	Principal	Interest [1]	Total	Principal	Interest [1]	Total
2010 Debt Obligations	\$ -	\$ 283,343	\$ 283,243	\$ -	\$ 255,481	\$ 255,481
Convertible Notes	1,251,855	50,846	1,302,701	20,000	-	20,000
Gaucho Notes	305,500	2,808	308,308	-	-	-
Total Debt Obligations	<u>\$ 1,557,355</u>	<u>\$ 336,997</u>	<u>\$ 1,894,352</u>	<u>\$ 20,000</u>	<u>\$ 255,481</u>	<u>\$ 275,481</u>

[1] Accrued interest is included as a component of accrued expenses on the accompanying condensed consolidated balance sheets (see Note 7 – Accrued Expenses).

10. RELATED PARTY TRANSACTIONS

Assets

Accounts receivable – related parties of \$137,396 and \$851,016 at September 30, 2018 and December 31, 2017, respectively, represents the net realizable value of advances made to related, but independent, entities under common management, of which \$78,140 and \$724,591 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.

Expense Sharing

On April 1, 2010, the Company entered into an agreement with a related entity, of which Algodon’s Chief Executive Officer is Chairman and Chief Executive Officer and Algodon’s Chief Financial Officer is an executive officer, to share expenses such as office space, support staff and other operating expenses. The Company is entitled to receive reimbursement of \$87,719 and \$227,378 for expenses incurred during the three and nine months ended September 30, 2018, respectively and \$87,399 and \$219,754 for expenses incurred during the three and nine months ended September 30, 2017, respectively, pursuant to this agreement. The entity owed \$78,140 and \$724,591, respectively, as of September 30, 2018 and December 31, 2017, under this agreement.

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The Company also had an expense sharing agreement with a different related entity to share expenses such as office space and other clerical services, which was terminated on August 2017. The owners of more than 5% of that entity include (i) Algodon's Chairman, and (ii) a more than 5% owner of Algodon. The Company was entitled to receive reimbursement of \$1,330 and \$9,310 for expenses during the three and nine months ended September 30, 2017, pursuant to this agreement. The entity owed \$396,116 to the Company under the expense sharing agreement as of September 30, 2018 and December 31, 2017, of which the entire balance is deemed unrecoverable and reserved.

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. A participant is always fully vested in their account, including the Company's contribution. For the three and nine months ended September 30, 2018, the Company recorded a charge associated with its contribution of \$14,697 and \$49,268, respectively, and for the three and nine months ended September 30, 2017, the Company recorded a charge associated with its contribution of \$15,866 and \$59,680, 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 (shares were issued at \$0.70 and \$2.00 per share for the nine months ended September 30, 2018 and 2017, respectively).

12. TEMPORARY EQUITY AND STOCKHOLDERS' DEFICIENCY

Equity Incentive Plans

On July 27, 2018, the Board of Directors determined that no additional awards shall be granted under the Company's 2008 Equity Incentive Plan, as amended (the "2008 Plan") or the 2016 Stock Option Plan (the "2016 Plan"), and that no additional shares will be automatically reserved for issuance on each January 1 under the evergreen provision of the 2016 Plan.

On July 27, 2018, the Board of Directors adopted the 2018 Equity Incentive Plan (the "2018 Plan"), which was approved by the Company's shareholders on September 28, 2018. The 2018 Plan provides for grants for the purchase of up to an aggregate of 1,500,000 shares, including incentive and non-qualified stock options, restricted and unrestricted stock, loans and grants, and performance awards. The number of shares available under the 2018 Plan will automatically increase on January 1 of each year by the amount equal to 2.5% of the total number of shares outstanding on such date, on a fully diluted basis. Further, any shares subject to an award issued under the 2018 Plan, the 2016 Plan or the 2008 Plan that are canceled, forfeited or expired shall be added to the total number of shares available under the 2018 Plan. On September 20, 2018, the Company granted options for the purchase of 1,500,000 shares of common stock (see Stock Options, below), such that, as of September 20, 2018 there are no shares available to be issued under the 2018 Plan.

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Under the 2018 Plan, awards may be granted to employees, consultants, independent contractors, officers and directors or any affiliate of the Company as determined by the Board of Directors. The maximum term of any award granted under the 2018 shall be ten years from the date of grant, and the exercise price of any award shall not be less than the fair value of the Company's stock on the date of grant, except that any incentive stock option granted under the 2018 Plan to a person owning more than 10% of the total combined voting power of the Company's common stock must be exercisable at a price of no less than 110% of the fair market value per share on the date of grant.

Series B Preferred Stock

The Series B stockholders are entitled to cumulative cash dividends at an annual rate of 8% of the Series B liquidation value (equal to face value of \$10 per share), as defined, payable when, as and if declared by the Board of Directors. Cumulative dividends earned by the Series B stockholders were \$181,746 and \$539,311 for the three and nine months ended September 30, 2018, respectively and \$133,860 and \$185,196 for the three and nine months ended September 30, 2017, respectively. During 2018, Company's Board of Directors declared dividends in the amount of \$474,719. During 2018, the Company issued 378,193 shares of common stock valued at \$0.70 per share, or \$264,272, in satisfaction of certain dividends payable and paid cash dividends of \$129,202. Dividends payable of \$83,523 are included in the current portion of other liabilities at September 30, 2018. Cumulative unpaid dividends in arrears related to the Series B totaled \$361,558 and \$284,564 as of September 30, 2018 and December 31, 2017, respectively.

Common Stock

During March 2018, the Company issued 116,284 shares of common stock at \$0.70 per share to settle its 2017 obligation, (an aggregate of \$81,399) representing the Company's 401(k) matching contributions to the Company's 401(k) profit-sharing plan.

During the nine months ended September 30, 2018, the Company sold 1,890,993 shares of common stock at \$0.70 per share for aggregate proceeds of \$1,323,695.

During the nine months ended September 30, 2018, the Company issued 378,193 shares of common stock in satisfaction of preferred stock dividends (see Series B Preferred Stock, above), and 1,285,516 shares of common stock in satisfaction of convertible debt obligations (see Note 9 – Convertible Debt Obligations).

Treasury Stock

On May 19, 2018, a former employee transferred 46,122 shares of the Company's common stock to the Company, as payment of a \$32,285 receivable from the former employee.

Accumulated Other Comprehensive Loss

For three and nine months ended September 30, 2018, the Company recorded \$325 and \$1,195,491, respectively, of foreign currency translation adjustments as accumulated other comprehensive loss and for the three and nine months ended September 30, 2017, the Company recorded \$245,800 and \$262,187, respectively, of foreign currency translation adjustments as accumulated other comprehensive loss, primarily related to fluctuations in the Argentine peso to United States dollar exchange rates (see Note 3 – Summary of Significant Accounting Policies, Highly Inflationary Status in Argentina).

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Warrants

A summary of warrants activity during the nine months ended September 30, 2018 is presented below:

	<u>Number of Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Life in Years</u>	<u>Intrinsic Value</u>
Outstanding, December 31, 2017	1,465,296	2.17		
Issued	-	-		
Exercised	-	-		
Expired	(133,251)	2.30		
Outstanding, September 30, 2018	<u>1,332,045</u>	<u>\$ 2.16</u>	<u>1.8</u>	<u>\$ -</u>
Exercisable, September 30, 2018	<u>1,332,045</u>	<u>\$ 2.16</u>	<u>1.8</u>	<u>\$ -</u>

A summary of outstanding and exercisable warrants as of September 30, 2018 is presented below:

<u>Warrants Outstanding</u>		<u>Warrants Exercisable</u>		
<u>Exercise Price</u>	<u>Exercisable Into</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	741,879	2.3	741,879
\$ 2.30	Common Stock	401,859	0.6	401,859
\$ 2.50	Common Stock	188,307	2.5	188,307
	Total	<u>1,332,045</u>		<u>1,332,045</u>

Stock Options

On February 12, 2018, the Company granted five-year options for the purchase of 1,304,328 shares of the Company's common stock under the 2016 Plan, to certain employees of the Company. The options had an exercise price of \$0.77 per share and vest 25% at the first anniversary of date of grant, with the remaining shares vesting ratably on a quarterly basis over the following three years. The options had an aggregate grant date fair value of \$610,985, which will be recognized ratably over the vesting period.

On September 20, 2018, the Company granted five-year options for the purchase of 1,500,000 shares of the Company's common stock under the 2018 Plan, of which options for the purchase of 1,080,000 shares of the Company's common stock were granted to certain employees of the Company, options for the purchase of 200,000 shares of the Company's common stock were granted to certain members of the Board of Directors and options for the purchase of 220,000 shares of the Company's common stock were granted to consultants. The options had an exercise price of \$0.539 per share and vest 25% at the first anniversary of date of grant, with the remaining shares vesting ratably on a quarterly basis over the following three years. The options had an aggregate grant date fair value of \$149,956, which will be recognized ratably over the vesting period.

ALGODON GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The Company has computed the fair value of options granted using the Black-Scholes option pricing model. Assumptions used in applying the Black-Scholes option pricing model during the three and nine months ended September 30, 2018 are as follows:

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Risk free interest rate	2.96%	2.56% - 2.96%
Expected term (years)	3.6 - 5.0	3.6 - 5.0
Expected volatility	43.50%	43.50%
Expected dividends	0.00%	0.00%

There were no stock options granted during the three or nine months ended September 30, 2017.

During the three and nine months ended September 30, 2018, respectively, the Company recorded stock-based compensation expense of \$177,105 and \$565,436, respectively, and during the three and nine months ended September 30, 2017, the Company recorded stock-based compensation expense of \$147,910 and \$460,931, respectively, related to stock option grants, which is reflected as general and administrative expenses in the accompanying condensed consolidated statements of operations. As of September 30, 2018, there was \$1,201,481 of unrecognized stock-based compensation expense related to stock option grants that will be amortized over a weighted average period of 2.9 years.

A summary of options activity during the nine months ended September 30, 2018 is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Term (Yrs)	Intrinsic Value
Outstanding, December 31, 2017	9,234,265	2.18		
Granted	2,804,328	0.65		
Exercised	-	-		
Expired	(2,505,000)	2.49		
Forfeited	(60,000)	1.62		
Outstanding, September 30, 2018	<u>9,473,593</u>	<u>\$ 1.65</u>	<u>2.8</u>	<u>\$ -</u>
Exercisable, September 30, 2018	<u>4,557,670</u>	<u>\$ 2.33</u>	<u>1.3</u>	<u>\$ -</u>

ALGODON GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)

The following table presents information related to stock options at September 30, 2018:

Options Outstanding		Options Exercisable	
Exercise Price	Outstanding Number of Options	Weighted Average Remaining Life in Years	Exercisable Number of Options
\$ 0.54	1,500,000	-	-
\$ 0.77	1,294,328	-	-
\$ 1.10	1,370,000	-	-
\$ 2.20	3,071,890	1.7	2,420,295
\$ 2.48	2,237,375	0.9	2,137,375
	<u>9,473,593</u>	<u>1.3</u>	<u>4,557,670</u>

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.

Commitments

The Company leases office space in New York City under an operating lease which expires on August 31, 2020. Rent expense for this property was \$35,568 and \$168,954 for the three months and nine months ended September 30, 2018, respectively, and \$52,641 and \$174,115 for the three months and nine months ended September 30, 2017, respectively, net of expense allocation to affiliates.

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 accompanying condensed consolidated financial statements.

Gaicho Notes

Between October 5, 2018 and October 28, 2018, the Company received proceeds of \$450,000 from the issuance of Gaicho Notes to three investors (see Note 9 - Convertible Debt Obligations).

Foreign Currency Exchange Rates

The Argentine peso to United States dollar exchange rate was 35.9954, 41.2830 and 18.593 at November 14, September 30, 2018 and December 31, 2017, respectively.

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, 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, 2017, 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 "Algodon", "we", "our", "us" or the "Company" are to Algodon 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. The Company is also in the process of establishing and managing a new, wholly-owned subsidiary, Gaucho Group. Under the brand name Gaucho-Buenos Aires, the Gaucho Group is currently developing both its initial products for manufacture and sale and its e-commerce platform.

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.

Argentina discussion

We operate in Argentina through certain wholly owned subsidiaries. Our Argentine operations contributed approximately \$411,000 or 93% of our consolidated revenues during the three months ended September 30, 2018 and contributed approximately \$2,088,000 or 99% of our consolidated revenues during the nine months ended September 30, 2018.

The International Practices Task Force ("IPTF") of the Center for Audit Quality discussed the inflationary status of Argentina at its meeting on May 16, 2018 and categorized Argentina as a country with a projected three-year cumulative inflation rate greater than 100%. Therefore, we have transitioned our Argentine operations to highly inflationary status as of July 1, 2018. Accordingly, the functional currency for Argentina has changed to the U.S. dollar, which is Algodon's reporting currency, for the three months ended September 30, 2018.

For operations in highly inflationary economies, monetary asset and liabilities are translated at the exchange rate in effect at the balance sheet date. Any resulting exchange gains and losses are recorded in income and are reflected in gain on foreign currency translation on the accompanying statements of operations. During the three months and nine months ended September 30, 2018, we recorded a \$58,579 gain on foreign currency translation as a result of the net monetary liability position of our Argentine subsidiaries.

Nonmonetary assets and liabilities, which include inventories, pre-paid expenses, property, plant and equipment and deferred revenues, are translated at their historical dollar cost. The historical cost of non-monetary assets and liabilities in existence as of the date of our transition to highly inflationary accounting was calculated using the exchange rate at June 30, 2018. Nonmonetary assets retain a higher historical basis when the currency is devalued. The higher historical basis results in incremental expense being recognized when the nonmonetary assets are consumed.

The operating environment in Argentina continues to be a challenging business environment, including the continuing significant devaluation of Argentina's currency, high inflation and economic recession. Volatility and declines in the exchange rate are expected in the future, which could have an adverse impact on our Argentine revenues, net earnings, cash flows and net monetary asset position.

Recent Developments and Trends

Financings

During the nine months ended September 30, 2018, we raised, net of repayments, approximately \$2.7 million of new capital through the issuance of debt, consisting primarily of proceeds from the issuance of convertible debt and loans payable, and we raised approximately \$1.3 million of new capital from the sale of our common stock. We used the net proceeds from these debt and equity issuances for general working capital, capital expenditures and payment of cash dividends of approximately \$129,000.

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 accompanying condensed consolidated financial statements, we have generated significant losses which have resulted in a total accumulated deficit of approximately \$80.8 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, 2017 and 2016, 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 we could ultimately be forced to discontinue our operations, liquidate and/or seek reorganization under the U.S. bankruptcy code.

Consolidated Results of Operations

Three months September 30, 2018 compared to three months ended September 30, 2017

Overview

We reported net losses of approximately \$1.3 million and \$1.9 million for the three months ended September 30, 2018 and 2017, respectively.

Revenues

Revenues from continuing operations were approximately \$440,000 and \$273,000 during the three months ended September 30, 2018 and 2017, respectively, representing an increase of \$167,000 or 61%. Increases of approximately \$515,000 in hotel revenues and wine sales during the three months ended September 30, 2018 as compared to the three months ended September 30, 2017 were partially offset by decreases of approximately \$348,000 resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar during the period.

Gross profit (loss)

We generated a gross profit of approximately \$134,000 for the three months ended September 30, 2018 as compared to a gross loss of approximately \$53,000 for the three months ended September 30, 2017, representing an improvement in gross profit of \$187,000, resulting from the increases in revenues and decrease in cost of sales during the period. Cost of sales, which consists of real estate lots, raw materials, direct labor and indirect labor associated with our business activities, decreased by approximately \$20,000 from \$326,000 for the three months ended September 30, 2017 to \$305,000 for the three months ended September 30, 2018. The decrease in cost of sales results primarily from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar partially offset by an increase in costs of sales as a result of the increase in revenues.

Selling and marketing expenses

Selling and marketing expenses were approximately \$53,000 and \$96,000 for the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$43,000 or 45%. Selling and marketing expenses consist of advertising costs and other marketing efforts to promote the Algodon brand.

General and administrative expenses

General and administrative expenses were approximately \$1,277,000 and \$1,563,000 for the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$286,000 or 18%, of which \$181,000 results from the decline in the value of the Argentine peso vis-à-vis the U.S. dollar and \$104,000 results primarily from decreases in professional fees and travel expenses during the quarter.

Depreciation and amortization expense

Depreciation and amortization expense was approximately \$44,000 and \$57,000 during the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$13,000.

Interest expense, net

Interest expense, net, was approximately \$93,000 and \$104,000 during the three months ended September 30, 2018 and 2017, respectively, representing a decrease of \$11,000 or 11%. This decrease of approximately \$11,000 was primarily due to the decline in the value of the Argentine peso vis-à-vis the U.S. dollar for the three months ended September 30, 2018 compared to the three months ended September 30, 2017, partially offset by increases resulting from the increase in debt outstanding during the period.

Gain on foreign currency translation

We recognized a gain on foreign currency translation of approximately \$59,000 for the three months ended September 30, 2018 as a result of the implementation of highly inflationary accounting for our Argentine operations as of July 1, 2018 (see Argentina Discussion, above). We did not account for our Argentine operations using highly inflationary accounting during the three months ended September 30, 2017.

Nine months ended September 30, 2018 compared to nine months ended September 30, 2017

Overview

We reported net losses of approximately \$5.2 million and \$5.6 million for the nine months ended September 30, 2018 and 2017, respectively.

Revenues

Revenues from continuing operations were approximately \$2,114,000 and \$1,305,000 during the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$809,000 or 62%. Increases in real estate lot revenues of approximately \$1,406,000, hotel and restaurant revenues of approximately \$533,000 and wine and agriculture revenues of approximately \$116,000 were partially offset by a decrease of approximately \$1,254,000 from the impact of the fluctuations in exchange rate of the Argentine peso to the United States dollar during the period.

Gross profit (loss)

We generated a gross profit of approximately \$847,000 for the nine months ended September 30, 2018, as compared to a gross loss of \$60,000 during the nine months ended September 30, 2017, representing an improvement of \$907,000. Cost of sales, which consists of raw materials, direct labor and indirect labor associated with our business activities, decreased by approximately \$97,000, or 7%, from \$1,365,000 for the nine months ended September 30, 2017 to \$1,266,000 for the nine months ended September 30, 2018. Decreases in cost of sales of approximately \$710,000 resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar, were partially offset by increases in hotel, restaurant and wine costs which correspond to the increase in the related revenues as discussed above.

Selling and marketing expenses

Selling and marketing expenses were approximately \$211,000 and \$303,000 for the nine months ended September 30, 2018 and 2017, respectively, representing a decrease of \$92,000, or 30%, which is primarily the result of stockholders' events held during the first quarter of 2017 and decreases resulting from the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the during the nine months ended September 30, 2018 as compared to the same period in 2017.

General and administrative expenses

General and administrative expenses were approximately \$5,268,000 and \$4,981,000 for the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$287,000 or 6%.

Depreciation and amortization expense

Depreciation and amortization expense was approximately \$134,000 and \$122,000 during the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$12,000 or 10%. It should be noted that an additional \$116,000 and \$70,000 of depreciation and amortization expense was charged to inventory during the nine months ended September 30, 2018 and 2017, respectively. Increases in depreciation resulting from investments in property and equipment during the period were partially offset by 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, 2018 compared to the nine months ended September 30, 2017.

Interest expense, net

Interest expense was approximately \$500,000 and \$239,000 during the nine months ended September 30, 2018 and 2017, respectively, representing an increase of \$261,000 or 109%. This increase was a result of an increase in the average outstanding principal balance of convertible debt and other loans payable outstanding during the period, and the amortization of the debt discount recorded related to the beneficial conversion feature on the convertible debt. These increases were partially offset by decreases in interest expense recognized related to Argentine debt, due to the impact of the decline in the value of the Argentine peso vis-à-vis the U.S. dollar in the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017.

Gain on foreign currency translation

We recognized a gain on foreign currency translation of approximately \$59,000 for the nine months ended September 30, 2018 as a result of the implementation of highly inflationary accounting for our Argentine operations as of July 1, 2018 (see Argentina Discussion, above). We did not account for our Argentine operations using highly inflationary accounting during the nine months ended September 30, 2017.

Gain on sale of investment in subsidiary

We owned approximately 96.5% of Mercari Communications Group, Ltd. (“Mercari”), a public shell corporation current in its SEC reporting obligations. On December 20, 2016, we entered into a Stock Purchase Agreement with a purchaser, whereby the purchaser agreed to purchase all of our shares of Mercari for \$260,000. The sale of Mercari stock was completed on January 20, 2017 and we received net proceeds after expenses of \$199,200.

Loss from discontinued operations

On November 29, 2016, our Board of Directors determined that it was in the Company’s best interest to close down DPEC Capital and we ceased our broker-dealer operations on December 31, 2016. On February 21, 2017, our request to FINRA for Broker-Dealer Withdrawal (“BDW”) became effective. The loss of approximately \$107,000 from discontinued operations during the nine months ended September 30, 2017 consist primarily of expenses incurred to wind down the broker-dealer operations.

Liquidity and Capital Resources

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

	September 30, 2018	December 31, 2017
Cash	\$ 42,062	\$ 358,303
Working Capital Deficiency	\$ (2,159,579)	\$ (62,464)

Based upon our working capital deficiency as of September 30, 2018, 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. During the nine months ended September 30, 2018, we received proceeds of approximately \$2,332,000 from the issuance of convertible debt, approximately \$580,000 of proceeds from loans payable and approximately \$1,324,000 proceeds from the sale of our common stock.

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, payment of dividends to our preferred stockholders and the general working capital needs of the business.

As of September 30, 2018, we owe principal of approximately \$1,167,00 in connection with notes payable (gross), of which approximately \$381,000 represents current debt and \$786,000 is due in installments through 2021. As of September 30, 2018, we also owe principal of approximately \$1,557,000 in connection with convertible debt, of which \$1,252,000 is past due and \$305,500 matures on December 31, 2018.

In addition, between October 5, 2018 and October 28, 2018, we received \$450,000 of cash proceeds from the sale of convertible debt, which matures on December 31, 2018. The debt is convertible at the option of the holder into Gaucho Group common stock at a 20% discount to the share price in a future offering of common stock by Gaucho Group.

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, 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, 2018 and 2017

Net Cash Used in Operating Activities

Net cash used in operating activities for the nine months ended September 30, 2018 and 2017 amounted to approximately \$4,261,000 and \$6,396,000, respectively. During the nine months ended September 30, 2018, the net cash used in operating activities was primarily attributable to the net loss of approximately \$5,207,000 adjusted for approximately \$814,000 of net non-cash expenses, and approximately \$133,000 of cash provided by changes in the levels of operating assets and liabilities. During the nine months ended September 30, 2017, the net cash used in operating activities was primarily attributable to the net loss of approximately \$5,613,000, adjusted for approximately \$468,000 of net non-cash expenses, and approximately \$1,251,000 of cash used 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, 2018 and 2017 amounted to approximately \$370,000 and \$242,000, respectively. Cash used in investing activities during the nine months ended September 30, 2018 was entirely from the purchase of property and equipment. Cash used in investing activities during the nine months ended September 30, 2017 consisted of approximately \$441,000 used for the purchase of property and equipment, including \$100,000 towards the land acquisition discussed under “initiatives” in the recent developments section of the Management’s Discussion and Analysis. The remaining \$600,000 purchase price related to the acquired land is being paid pursuant to the terms of an installment loan payable. Cash used to acquire property and equipment was partially offset by approximately \$199,000 provided by the sale of our investment in a subsidiary.

Net Cash Provided by Financing Activities

Net cash provided by financing activities for the nine months ended September 30, 2018 and 2017 amounted to approximately \$3,942,000 and \$7,937,000, respectively. For the nine months ended September 30, 2018, the net cash provided by financing activities resulted from approximately \$2,332,000 of proceeds from convertible debt obligations, approximately \$580,000 of proceeds from the issuance of loans payable, and approximately \$1,324,000 from cash proceeds from the issuance of common stock, partially offset by debt repayments of approximately \$165,000 and dividends paid in cash of approximately \$129,000. For the nine months ended September 30, 2017, the net cash provided by financing activities resulted primarily from \$6,352,000 and \$40,500 from the sale of Series B preferred stock and common stock, respectively, \$517,000 of proceeds from the issuance of loans payable, and \$1,260,000 of proceeds from convertible debt obligations, partially offset by debt and loan repayments of approximately \$172,000 and dividends paid in cash of approximately \$61,000.

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.

We are currently funding operations on a month to month basis. Based on current cash on hand and subsequent activity as described herein, we may not have sufficient funds to operate our business operations for the next twelve months. 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 audits of our December 31, 2017 and 2016 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

Revenue Recognition

On January 1, 2018, we adopted ASC Topic 606, Revenue from Contracts with Customers. ASC Topic 606 provides a single comprehensive model to use in accounting for revenue arising from contracts with customers, and gains and losses arising from transfers of non-financial assets including sales of property and equipment, real estate, and intangible assets. We adopted ASC Topic 606 for all applicable contracts using the modified retrospective method, which requires a cumulative-effect adjustment, if any, as of the date of adoption. The adoption of ASC Topic 606 did not have a material impact on our consolidated financial statements as of the date of adoption, and therefore a cumulative-effect adjustment was not required.

We earn revenues from the real estate lot sales and sale of food and wine as well as hospitality, food and beverage, and other related services. We recognize revenue when goods or services are transferred to customers in an amount that reflects the consideration that we expect to receive in exchange for those goods or services. In determining when and how revenue is recognized from contracts with customers, we perform the following five-step analysis: (i) identification of contract with customer; (ii) determination of performance obligations; (iii) measurement of the transaction price; (iv) allocation of the transaction price to the performance obligations; and (v) recognition of revenue when (or as) we satisfy each performance obligation.

The following table summarizes the revenue recognized in our condensed consolidated statements of operations:

	For The Three Months Ended		For The Nine Months Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Real estate sales	\$ -	\$ -	\$ 877,036	\$ -
Hotel room and events	194,848	119,585	582,427	544,084
Restaurants	64,224	58,443	220,494	226,593
Winemaking	68,055	91,433	295,226	391,183
Golf, tennis and other	112,855	3,674	139,114	143,107
	<u>\$ 439,982</u>	<u>\$ 273,135</u>	<u>\$ 2,114,297</u>	<u>\$ 1,304,967</u>

Revenue from real estate lot sales is recorded when the lot is deeded, and legal ownership of the lot is transferred to the customer. Revenue from the sale of food, wine and agricultural products is recorded when the customer obtains control of the goods purchased. Revenues from hospitality and other services are recognized as earned at the point in time that the related service is rendered, and the performance obligation has been satisfied.

The timing of our revenue recognition may differ from the timing of payment by our customers. A receivable is recorded when revenue is recognized prior to payment and we have an unconditional right to payment. Alternatively, when payment precedes the provision of the related services, we record deferred revenue until the performance obligations are satisfied. 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 us in connection with agreements to sell barrels of wine, and advance deposits received for grapes and other agricultural products, and hotel deposits. Wine barrel and agricultural product advance deposits are recognized as revenues (along with any outstanding balance) when the product is shipped to the purchaser. Hotel deposits are recognized as revenue upon occupancy of rooms or the provision of services.

During the three and nine months ended September 30, 2018, we recognized approximately \$0 and \$877,036, respectively, of revenues related to the sale of real estate lots which was included in deferred revenues as of December 31, 2017. For the three and nine months ended September 30, 2018, we did not recognize any revenue related to performance obligations satisfied in previous periods. Contracts related to the sale of wine, agricultural products and hotel services have an original expected length of less than one year. We have elected not to disclose information about remaining performance obligations pertaining to contracts with an original expected length of one year or less, as permitted under the guidance.

As of September 30, 2018 and December 31, 2017, we had deferred revenue of \$645,732 and \$1,690,224, respectively, associated with real estate lot sale deposits, and had \$26,560 and \$42,440, respectively, of deferred revenue related to hotel deposits. 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.

There are no other material changes from the critical accounting policies, estimates and new accounting pronouncements 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, 2018. Please refer to that document for disclosures regarding the critical accounting policies related to our business.

Highly Inflationary Status in Argentina

The International Practices Task Force (“IPTF”) of the Center for Audit Quality discussed the inflationary status of Argentina at its meeting on May 16, 2018 and categorized Argentina as a country with a projected three-year cumulative inflation rate greater than 100%. Therefore, we transitioned our Argentine operations to highly inflationary status as of July 1, 2018.

For operations in highly inflationary economies, monetary asset and liabilities are translated at exchange rates in effect at the balance sheet date, and non-monetary assets and liabilities are translated at historical exchange rates. Income and expense accounts are translated at the weighted average exchange rate in effect during the period. Translation adjustments are reflected in gain on foreign currency translation on the accompanying statements of operations.

New Accounting Pronouncements

For a description of our recently issued accounting pronouncements, see Note 3 – Summary of Significant Accounting Policies in Part 1, Item 1 of this Quarterly Report on Form 10-Q.

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, 2018, 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, 2018.

Changes in Internal Control over Financial Reporting

During the three months ended September 30, 2018, 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 Algodon 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 Algodon and its subsidiaries are successful, they may exceed the limits of applicable insurance coverage

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, 2017, filed with the SEC on March 30, 2018.

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

Issuances of Shares, Convertible Securities, Options and Warrants

Between July 2, 2018 and September 11, 2018, the Company sold 1,068,993 shares of common stock to accredited investors for gross proceeds of \$748,295 pursuant to a private placement. No general solicitation was used, no commissions were paid, and the Company relied on the exemption from registration available under Section 4(a)(2) and Rule 506(b) of Regulation D of the Securities Act of 1933, as amended, in connection with the sales. A Form D was filed with the Securities and Exchange Commission on July 17, 2018, an amended Form D was filed with the SEC on August 1, 2018, and a second amended Form D was filed with the SEC on September 17, 2018.

In addition, between July 11, 2018 and October 28, 2018, the Company’s wholly-owned subsidiary, Gaucho Group, Inc. (“Gaucho Group”), sold convertible promissory notes in the amount of \$755,500 to accredited investors. The maturity date of the notes is December 31, 2018, and at the option of the holder, the principal amount of the note plus accrued interest can be converted into Gaucho Group common stock at a 20% discount to the share price in a future offering of common stock by Gaucho Group. No general solicitation was used, no commissions were paid, and Gaucho Group relied on the exemption from registration available under Section 4(a)(2) and Rule 506(b) of Regulation D of the Securities Act of 1933, as amended, in connection with the sales. A Form D was filed with the Securities and Exchange Commission on September 18, 2018.

On September 20, 2018, the Company granted five-year options for the purchase of 1,500,000 shares of the Company’s common stock under the 2018 Plan, of which options for the purchase of 725,000 shares of the Company’s common stock were granted to the Company’s President and CEO, Scott L. Mathis, and options for the purchase of 200,000 shares of the Company’s common stock were granted to Peter J. Lawrence, a member of the Board of Directors. The options have an exercise price of \$0.539 per share and vest 25% at the first anniversary of date of grant, with the remaining shares vesting ratably on a quarterly basis over the following three years. No general solicitation was used, no commissions were paid, and the Company relied on the exemption from registration available under Section 4(a)(2) and Rule 506(b) of Regulation D of the Securities Act of 1933, as amended, in connection with the sales.

Other than as set forth herein or in the Company’s current reports on Form 8-K, there have not been any sales of unregistered securities.

Item 3. Defaults upon Senior Securities

Of the aggregate principal amount of \$2,046,730 of convertible promissory notes sold by the Company (please see Note 9 of the Notes to Financial Statements), all holders converted their promissory notes into common stock of the Company except for holders holding \$1,251,854 (the “Outstanding Notes”). The Outstanding Notes matured at various dates between June 12, 2018 and July 12, 2018 (90 days from the date of issuance), bear interest at 8% per annum and are no longer convertible into the Company’s common stock.

The remaining principal balance owed on the Outstanding Notes is \$1,251,854 as of September 30, 2018. Total accrued interest due related to the Outstanding Notes is \$50,846 as of September 30, 2018 and is \$64,755 as of the date of the filing of this Quarterly Report on November 19, 2018.

Item 4. Mine and Safety Disclosure

Not applicable.

Item 5. Other Information

On July 27, 2018, the Board of Directors of the Company (the “Board of Directors”) adopted the 2018 Equity Incentive Plan (the “2018 Plan”). Also on July 27, 2018, the Board of Directors determined that no additional awards will be granted under the Company’s 2008 Equity Incentive Plan, as amended (the “2008 Plan”) or the 2016 Stock Option Plan (the “2016 Plan”), and that no additional shares will be automatically reserved for issuance on each January 1 under the evergreen provision of the 2016 Plan. Further, any shares subject to an award issued under the 2018 Plan, the 2016 Plan or the 2008 Plan that are canceled, forfeited or expired shall be added to the total number of shares available under the 2018 Plan.

On September 28, 2018, the Company's stockholders approved the 2018 Plan. Under the 2018 Plan, 1,500,000 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.

Summary of the Plan

The following is a summary of principal features of the 2018 Plan. The summary, however, does not purport to be a complete description of all the provisions of the 2018 Plan—please see Exhibit 4.4 to this Quarterly Report. The 2018 Plan includes two types of options, stock appreciation rights, restricted stock and restricted stock units, performance awards and other stock-based awards. Options intended to qualify as incentive stock options under Section 422 of the Internal Revenue Code of 1986, as amended, are referred to as incentive options. Options which are not intended to qualify as incentive options are referred to as non-qualified options.

The 2018 Plan is presently administered and interpreted by a committee of the Board of Directors which is comprised of at least two independent members of the Board of Directors (the "Committee"). In the absence of this committee, the Board of Directors shall administer the 2018 Plan. In addition to determining who will be granted options or other awards under the 2018 Plan and what type of awards will be granted, the Committee has the authority and discretion to determine when awards will be granted and the number of awards to be granted. The Committee also may determine the terms and conditions of the awards; amend the terms and conditions of the awards; how the awards may be exercised whether in cash or securities or other property; establish, amend, suspend, or waive applicable rules and regulations and appoint agents to administer the 2018 Plan; take any action for administration of the 2018 Plan; and adopt modifications to comply with laws of non-U.S. jurisdictions.

Participants in the 2018 Plan consist of "Eligible Persons", who are employees, officers, consultants, advisors, independent contractors, or directors providing services to the Company or any affiliate of the Company as determined by the Committee. The Committee may take into account the duties of persons selected, their present and potential contributions to the success of Company and such other considerations as the Committee deems relevant to the purposes of the 2018 Plan.

The maximum number of shares subject to an award granted during a fiscal year to any member of the Board of Directors (exclusive of shares subject to an award issued to any director in his or her capacity as an employee of the Company), together with any cash fees paid to such director during the fiscal year shall not exceed a total value of \$100,000 (calculating the value of any awards based on the grant date fair value for financial reporting purposes).

The exercise price of any option granted under the 2018 Plan must be no less than 100% of the "fair market value" of the Company's common stock on the date of grant. Any incentive stock option granted under the 2018 Plan to a person owning more than 10% of the total combined voting power of the common stock must be at a price of no less than 110% of the fair market value per share on the date of grant.

Unless otherwise determined by the Committee, awards remain exercisable for a period of six months (but no longer than the original term of the award) after a participant ceases to be an employee or the consulting services are terminated due to death or disability. All restricted stock held by the participant becomes free of all restrictions under the 2018 Plan, and any payment or benefit under a performance award is forfeited and cancelled at time of termination unless the participant is irrevocably entitled to such award at the time of termination, where termination results from death or disability. Termination of service as a result of anything other than death or disability results in the award remaining exercisable for a period of one month (but no longer than the original term of the award) after termination and any payment or benefit under a performance award is forfeited and cancelled at time of termination unless the participant is irrevocably entitled to such award at the time of termination. All restricted stock held by the participant becomes free of all restrictions unless the participant voluntarily resigns or is terminated for cause, in which event the restricted stock is transferred back to the Company.

The Committee may amend, alter, suspend, discontinue or terminate the 2018 Plan at any time; provided, however, that, without the approval of the stockholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval: (i) violates the rules or regulations of any securities exchange that are applicable to the Company; (ii) causes the Company to be unable, under the Internal Revenue Code, to grant incentive stock options under the 2018 Plan; (iii) increases the number of shares authorized under the 2018 Plan other than the 2.5% increase per year; or (iv) permits the award of options or stock appreciation rights at a price less than 100% of the fair market value of a share on the date of grant of such award, as prohibited by the 2018 Plan or the repricing of options or stock appreciation rights, as prohibited by the 2018 Plan.

On September 20, 2018, the Company granted options for the purchase of 1,500,000 shares of common stock (see Item 3 above), such that, as of the date of this Quarterly Report, there are no shares available to be issued under the 2018 Plan.

Also on September 20, 2018, the Board of Directors determined that the term of the Employment Agreement between Scott Mathis, Chairman, President, and Chief Executive Officer of the Company and the Company, dated September 28, 2015, would be extended on the same terms and conditions for a period of 120 days, until January 28, 2019.

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.

Exhibit	Description
2.1	Stock Purchase Agreement between the Company and China Concentric Capital Group, Inc., dated December 20, 2016 ⁽²⁾
2.2	First Amendment to the Stock Purchase Agreement between the Company and China Concentric Capital Group, Inc., dated January 17, 2017 ⁽²⁾
2.3	Escrow Agreement between the Company, China Concentric Capital Group, Inc., and J.M. Walker & Associates, dated December 16, 2016 ⁽²⁾
2.4	First Amendment to the Escrow Agreement between the Company, China Concentric Capital Group, Inc., and J.M. Walker & Associates, dated January 17, 2017 ⁽²⁾
3.1	Amended and Restated Certificate of Incorporation filed September 30, 2013 ⁽¹⁾
3.2	Amendment to the Amended and Restated Certificate of Incorporation filed on September 20, 2018 and effective October 1, 2018*
3.3	Amended and Restated Bylaws ⁽¹⁾
4.1	Amended and Restated Certificate of Designation of the Series A Preferred filed September 30, 2013 ⁽¹⁾
4.2	Amendment No. 1 to the Amended and Restated Certificate of Designation of Series A Convertible Preferred Stock, dated February 28, 2017 ⁽³⁾
4.3	Certificate of Designation of Series B Convertible Preferred Stock, dated February 28, 2017 ⁽³⁾
4.4	2018 Equity Incentive Plan*
10.1	Employment Agreement by and between Algodon Wines & Luxury Development Group, Inc. and Scott L. Mathis dated September 28, 2015 ⁽⁴⁾
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 filed on March 31, 2017.

(3) Incorporated by reference from the Company's Current Report on Form 8-K, filed on March 2, 2017.

(4) Incorporated by reference from the Company's Quarterly report on Form 10-Q, filed on November 16, 2015.

* 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 19, 2018

ALGODOON 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

Delaware

The First State

Page 1

I, JEFFREY W. BULLOCK, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF AMENDMENT OF "ARLUX HOLDINGS, INC.", CHANGING ITS NAME FROM "ARLUX HOLDINGS, INC." TO "GAUCHO GROUP, INC.", FILED IN THIS OFFICE ON THE THIRD DAY OF JULY, A.D. 2018, AT 9:29 O`CLOCK A.M.

A FILED COPY OF THIS CERTIFICATE HAS BEEN FORWARDED TO THE KENT COUNTY RECORDER OF DEEDS.



6149473 8100
SR# 20185488309

You may verify this certificate online at corp.delaware.gov/authver.shtml

A handwritten signature in black ink, appearing to read "JWB", is written over a horizontal line. Below the line, the text "Jeffrey W. Bullock, Secretary of State" is printed.

Authentication: 203010078
Date: 07-05-18

State of Delaware
Secretary of State
Division of Corporations
Delivered 09:29 AM 07/03/2018
FILED 09:29 AM 07/03/2018
SR 20185488309 - File Number 6149473

CERTIFICATE OF AMENDMENT OF
CERTIFICATE OF INCORPORATION OF ARLUX HOLDINGS , INC.

Arlux Holdings , Inc. (the "Corporation"), organized and existing under and by virtue of the General Corporation Law of the State of Delaware, does hereby certify as follows:

By vote of the Board of Directors of the Corporation, a resolution was adopted, pursuant to Section 242 of the General Corporation Law of the State of Delaware, setting forth an amendment to the Certificate of Incorporation of the Corporation and declaring said amendment to be advisable. The stockholders of the Corporation duly approved said proposed amendment by written consent in accordance with Sections 228 and 242 of the General Corporation Law of the State of Delaware. The resolution setting forth the amendment is as follows:

RESOLVED: that the first paragraph of Article First of the Certificate of Incorporation of the Corporation be and it hereby is deleted in its entirety and a new Article First be inserted in lieu thereof to read as follows:

"FIRST: Name. The name of the corporation is Gaucho Group, Inc. (hereinafter referred to as the "Corporation")."

IN WITNESS WHEREOF, the Corporation has caused this Certificate of Amendment to be signed by its Chief Executive Officer this 2nd day of July, 2018.

ARLUX HOLDINGS , INC.

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

ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC.

2018 EQUITY INCENTIVE PLAN

ADOPTED BY THE ALGODON
BOARD OF DIRECTORS ON
JULY 27, 2018

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ALGODON WINES & LUXURY DEVELOPMENT GROUP, INC.

2018 EQUITY INCENTIVE PLAN

Section 1. Purpose

The purpose of the Plan is to promote the long-term retention of key employees of the Company and other persons or entities who are in a position to make significant contributions to the success of the Company, to further reward these employees and other persons or entities for their contributions to the Company's success, to provide additional incentive to these employees and other persons or entities to continue to make similar contributions in the future, and to further align the interests of these employees and other persons or entities with those of the Company's stockholders. These purposes will be achieved by granting to such employees one or more Awards authorized by the Plan.

Section 2. Definitions

As used in the Plan, the following terms shall have the meanings set forth below:

(a) "*Affiliate*" shall mean (i) any entity that, directly or indirectly through one or more intermediaries, is controlled by the Company and (ii) any entity in which the Company has a significant equity interest, in each case as determined by the Committee.

(b) "*Award*" shall mean any Option, Stock Appreciation Right, Restricted Stock, Restricted Stock Unit, Performance Award, Other Stock Grant or Other Stock-Based Award granted under the Plan.

(c) "*Award Agreement*" shall mean any written agreement, contract or other instrument or document evidencing any Award granted under the Plan. An Award Agreement may be in an electronic medium and must be signed by a representative of the Company and the Participant. Each Award Agreement shall be subject to the applicable terms and conditions of the Plan and any other terms and conditions (not inconsistent with the Plan) determined by the Committee.

(d) "*Board*" shall mean the Board of Directors of the Company.

(e) "*Code*" shall mean the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder.

(f) "*Committee*" shall mean a committee of Directors designated by the Board to administer the Plan, which shall initially be the Company's compensation committee. The Committee shall be comprised of not less than such number of Directors as shall be required to permit Awards granted under the Plan to qualify under Rule 16b-3, and each member of the Committee shall be a "*Non-Employee Director*." In the absence of any Committee of Non-Employee Directors, the term "Committee" when used herein shall refer to the entire Board.

(g) “*Company*” shall mean Algodon Wines & Luxury Development Group, Inc., a Delaware corporation, including all current and future subsidiaries, and any successor corporation.

(h) “*Director*” shall mean a member of the Board, including any Non-Employee Director.

(i) “*Eligible Person*” shall mean any employee, officer, consultant, advisor, independent contractor or director providing services to the Company or any Affiliate who the Committee determines to be an Eligible Person.

(j) “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

(k) “*Fair Market Value*” shall mean, with respect to any property, the fair market value of such property determined by such methods or procedures as shall be established from time to time by the Committee. Notwithstanding the foregoing, the Fair Market Value of a Share, as of a given date, shall be determined as follows:

(i) If the Shares are listed on any established stock exchange or traded on a national market system, including without limitation, the New York Stock Exchange or the NASDAQ Stock Market, the Fair Market Value of a Share shall be the closing price of a share of Common Stock (or if no sales were reported, the closing price on the date immediately preceding such date) as quoted on such exchange or system on the day of determination as reported in *The Wall Street Journal*. In the absence of an established market for the Common Stock, the Fair Market Value shall be determined in good faith by the Committee using a reasonable application of a reasonable valuation method.

(l) “*Incentive Stock Option*” shall mean an option granted under Section 6(a) of the Plan that is intended to qualify as an “incentive stock option” in accordance with the terms of Section 422 of the Code or any successor provision.

(m) “*Non-Employee Director*” shall mean any Director who is not also an employee of the Company or an Affiliate within the meaning of Rule 16b-3.

(n) “*Non-Qualified Stock Option*” shall mean an option granted under Section 6(a) of the Plan that is not an Incentive Stock Option.

(o) “*Option*” shall mean an Incentive Stock Option or a Non-Qualified Stock Option.

(p) “*Other Stock Grant*” shall mean any right granted under Section 6(e) of the Plan.

(q) “*Other Stock-Based Award*” shall mean any right granted under Section 6(f) of the Plan.

(r) “*Participant*” shall mean an Eligible Person designated to be granted an Award under the Plan.

(s) “*Performance Award*” shall mean any right granted under Section 6(d) of the Plan.

(t) “*Performance Goal*” shall mean one or more of the following performance goals, either individually, alternatively or in any combination, applied on a corporate, subsidiary, division, business unit or line of business basis: sales, revenue, costs, expenses (including expense efficiency ratios and other expense measures), earnings (including one or more of net profit after tax, gross profit, operating profit, earnings before interest and taxes, earnings before interest, taxes, depreciation and amortization and net earnings), earnings per share, earnings per share from continuing operations, operating income, pre-tax income, operating income margin, net income, margins (including one or more of gross, operating and net income margins), returns (including one or more of return on actual or *pro forma* assets, net assets, equity, investment, capital and net capital employed), stockholder return (including total stockholder return relative to an index or peer group), stock price, economic value added, cash generation, cash flow, unit volume, working capital, market share, cost reductions and strategic plan development and implementation. Such goals may reflect absolute entity or business unit performance or a relative comparison to the performance of a peer group of entities or other external measure of the selected performance criteria. Pursuant to rules and conditions adopted by the Committee on or before the 90th day of the applicable performance period for which Performance Goals are established, the Committee may appropriately adjust any evaluation of performance under such goals to exclude the effect of certain events, including any of the following events: asset write-downs; litigation or claim judgments or settlements; changes in tax law, accounting principles or other such laws or provisions affecting reported results; severance, contract termination and other costs related to exiting certain business activities; and gains or losses from the disposition of businesses or assets or from the early extinguishment of debt.

(u) “*Person*” shall mean any individual or entity, including a corporation, partnership, limited liability company, association, joint venture or trust.

(v) “*Plan*” shall mean the Algodon Wines & Luxury Development Group, Inc., 2018 Equity Incentive Plan, as amended from time to time, the provisions of which are set forth herein.

(w) “*Restricted Stock*” shall mean any Share granted under Section 6(c) of the Plan.

(x) “*Restricted Stock Unit*” shall mean any unit granted under Section 6(c) of the Plan evidencing the right to receive a Share (or a cash payment equal to the Fair Market Value of a Share) at some future date.

(y) “*Rule 16b-3*” shall mean Rule 16b-3 promulgated by the Securities and Exchange Commission under the Exchange Act, or any successor rule or regulation.

(z) “*Securities Act*” shall mean the Securities Act of 1933, as amended.

(aa) “*Share*” or “*Shares*” shall mean a share or shares of common stock, \$0.01 par value per share, of the Company or such other securities or property as may become subject to Awards pursuant to an adjustment made under Section 4(c) of the Plan.

(bb) “*Stock Appreciation Right*” shall mean any right granted under Section 6(b) of the Plan.

Section 3. Administration

(a) Power and Authority of the Committee. The Plan shall be administered by the Committee. Subject to the express provisions of the Plan and to applicable law, the Committee shall have full power and authority to:

- (i) designate Participants;
- (ii) determine the type or types of Awards to be granted to each Participant under the Plan;
- (iii) determine the number of Shares to be covered by (or the method by which payments or other rights are to be determined in connection with) each Award;
- (iv) determine the terms and conditions of any Award or Award Agreement;
- (v) amend the terms and conditions of any Award or Award Agreement and accelerate the exercisability of any Option or waive any restrictions relating to any Award;
- (vi) determine whether, to what extent and under what circumstances Awards may be exercised in cash, Shares, other securities, other Awards or other property, or canceled, forfeited or suspended;
- (vii) interpret and administer the Plan and any instrument or agreement, including an Award Agreement, relating to the Plan;
- (viii) establish, amend, suspend or waive such rules and regulations and appoint such agents as it shall deem appropriate for the proper administration of the Plan;
- (ix) make any other determination and take any other action that the Committee deems necessary or desirable for the administration of the Plan; and
- (x) adopt such modifications, rules, procedures, and sub-plans as may be necessary or desirable to comply with provisions of the laws of non-U.S. jurisdictions in which the Company or an Affiliate may operate, including, without limitation, establishing any special rules for Affiliates, Eligible Persons or Participants located in any particular country, in order to meet the objectives of the Plan and to ensure the viability of the intended benefits of Awards granted to Participants located in such non-United States jurisdictions.

Unless otherwise expressly provided in the Plan, all designations, determinations, interpretations and other decisions under or with respect to the Plan, any Award, or any Award Agreement shall be within the sole discretion of the Committee, may be made at any time and shall be final, conclusive and binding upon any Eligible Person and any holder or beneficiary of any Award.

The Company intends that Awards under the Plan shall avoid application of Section 409A of the Code and thereby avoid any adverse tax results thereunder. The Committee shall administer and interpret the Plan and all Award Agreements in a manner consistent with this intent. In this regard, if any provision of the Plan or an Award Agreement would result in adverse tax consequences under Section 409A of the Code, the Committee may amend that provision (or take any other action reasonably necessary) to avoid any adverse tax results and no action taken to comply with Section 409A of the Code shall be deemed to impair or otherwise adversely affect the rights of any holder of an Award or beneficiary thereof.

(b) Delegation. The Committee may delegate its powers and duties under the Plan to one or more Directors (including a Director who is also an officer of the Company) or a committee of Directors, subject to such terms, conditions and limitations as the Committee may establish in its sole discretion; *provided, however*, that the Committee shall not delegate its powers and duties under the Plan with regard to officers or directors of the Company or any Affiliate who are subject to Section 16 of the Exchange Act.

(c) Power and Authority of the Board. Notwithstanding anything to the contrary contained herein, the Board may, at any time and from time to time, without any further action of the Committee, exercise the powers and duties of the Committee under the Plan. The Board's approval of a grant of an Award under the Plan, including the names of Participants and the size of the Award, including the number of Shares subject to the Award, shall be reflected in minutes of meetings held by the Board or in written consents signed by members of the Board. Once approved by the Board, each Award shall be evidenced by such written instrument, containing such terms as are required by the Plan and such other terms, consistent with the provisions of the Plan, as may be approved from time to time by the Board.

(d) Previously Granted Options. There are outstanding options for the purchase of Shares granted by the Company to Eligible Persons pursuant to the Company's existing stock option plans (the "Pre-Existing Plans"). Options which are outstanding under the Pre-Existing Plans as of the effective date of this Plan shall continue to be exercisable and shall be governed by and be subject to the terms of the Pre-Existing Plans and the stock option agreements evidencing their issuance.

(e) Actions Taken in Good Faith. No member of the Committee or Board shall be liable for any action taken or determination made in good faith with respect to the Plan or any Award granted under the Plan. Further, except for the express obligations of the Company under the Plan and under Awards granted in accordance with the provisions of the Plan, the Company shall have no liability with respect to any Award, or to any Participant or any transferee of Shares from any Participant, including, but not limited to, any tax liabilities, capital losses, or other costs or losses incurred by any Participant or any such transferee.

(f) Costs of Administration. All costs incurred in connection with the administration and operation of the Plan shall be paid by the Company.

Section 4. Shares Available for Awards

(a) Shares Available. Subject to adjustment as provided in Section 4(c) of the Plan, the aggregate number of Shares that may be issued under the Plan, excluding shares issued under the Pre-Existing Plans, shall be 1,500,000 Shares, plus an automatic annual increase to be added on January 1 of each year equal to 2.5% of the total number of Shares outstanding on such date (including for this purpose any Shares issuable upon conversion of any outstanding capital stock of the Company).

(i) Any Shares subject to an Award issued under this Plan or the Pre-Existing Plans that are canceled, forfeited or expire prior to exercise or realization, either in full or in part, shall be added to the total number of Shares available for an Award to be made under the Plan.

(ii) Shares to be issued under the Plan must be authorized but unissued Shares.

(iii) Notwithstanding the foregoing, (A) the number of Shares available for granting Incentive Stock Options under the Plan shall not exceed the aggregate number of Shares that may be issued under the Plan not taking into account any automatic increase in the share reserve, subject to adjustment as provided in Section 4(c) of the Plan and subject to the provisions of Section 422 or 424 of the Code or any successor provision and (B) the number of Shares available for granting Restricted Stock and Restricted Stock Units shall not exceed 500,000, subject to adjustment as provided in Section 4(c) of the Plan. Shares tendered by Participants as full or partial payment to the Company upon exercise of an Award, and Shares withheld by or otherwise remitted to the Company to satisfy a Participant's tax withholding obligations with respect to an Award, shall not then become available for issuance under the Plan. Any Shares withheld or otherwise remitted to the Company to satisfy tax withholding obligations, to pay the exercise price of an Award, or Shares of Common Stock subject to a broker-assisted cashless exercise of an Award shall reduce the number of Shares available for issuance under the Plan.

(iv) The maximum number of Shares subject to an Award granted during a Fiscal Year to any Director (exclusive of Shares subject to an Award issued to any Director in his or her capacity as an Employee of the Company), together with any cash fees paid to such Director during the Fiscal Year shall not exceed a total value of \$100,000 (calculating the value of any Awards based on the grant date fair value for financial reporting purposes).

(b) Accounting for Awards. For purposes of this Section 4, if an Award entitles the holder thereof to receive or purchase Shares, the number of Shares covered by such Award or to which such Award relates shall be counted on the date of grant of such Award against the aggregate number of Shares available for granting Awards under the Plan. If any Shares covered by an Award or to which an Award relates are not purchased or are forfeited, or if an Award otherwise terminates without delivery of any Shares, then the number of Shares counted against the aggregate number of Shares available under the Plan with respect to such Award, to the extent of any such forfeiture or termination, shall again be available for granting Awards under the Plan. For Stock Appreciation Rights settled in Shares upon exercise, the aggregate number of

Shares with respect to which the Stock Appreciation Right is exercised, rather than the number of Shares actually issued upon exercise, shall be counted against the number of Shares available for Awards under the Plan. Awards that do not entitle the holder thereof to receive or purchase Shares, and Awards that are denominated at the time of grant as payable only in cash and that are settled in cash, shall not be counted against the aggregate number of Shares available for Awards under the Plan.

(c) Adjustments. In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, Shares, other securities or other property), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of Shares or other securities of the Company, issuance of warrants or other rights to purchase Shares or other securities of the Company or other similar corporate transaction or event affects the Shares such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan, then the Committee shall, in such manner as it may deem equitable, adjust any or all of

- (i) the number and type of Shares (or other securities or other property) that thereafter may be made the subject of Awards,
- (ii) the number and type of Shares (or other securities or other property) subject to outstanding Awards, and
- (iii) the purchase price or exercise price with respect to any Award;

provided, however, that no such adjustment shall be made to any Award to the extent that it would, in the view of the Company, cause such Award to be subject to Section 409A of the Code, and the number of Shares covered by any Award or to which such Award relates shall always be a whole number.

Section 5. Eligibility

Any Eligible Person shall be eligible to be designated a Participant. In determining which Eligible Persons shall receive an Award and the terms of any Award, the Committee may take into account the nature of the services rendered by the respective Eligible Persons, their present and potential contributions to the success of the Company or such other factors as the Committee, in its discretion, shall deem relevant. Notwithstanding the foregoing, an Incentive Stock Option may only be granted to full-time or part-time employees (which term as used herein includes, without limitation, officers and directors who are also employees), and an Incentive Stock Option shall not be granted to an employee of an Affiliate unless such Affiliate is also a "subsidiary corporation" of the Company within the meaning of Section 424(f) of the Code or any successor provision.

Section 6. Awards

(a) Options. The Committee is hereby authorized to grant Options to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Exercise Price. The purchase price per Share purchasable under an Option shall be determined by the Committee; *provided, however*, that such purchase price shall not be less than 100% of the Fair Market Value of a Share on the date of grant of such Option.

(ii) Option Term. The term of each Option shall be fixed by the Committee at the time of grant.

(iii) Time and Method of Exercise. The Committee shall determine the time or times at which an Option may be exercised in whole or in part and the method or methods by which, and the form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property, or any combination thereof, having a Fair Market Value on the exercise date equal to the applicable exercise price) in which, payment of the exercise price with respect thereto may be made or deemed to have been made. Without intending to limit the foregoing, if the market price of Shares subject to an Option exceeds the exercise price of the Option at the time of its exercise, the Board may cancel the Option and cause the Company to pay in cash or in Shares to the person exercising the Option an amount equal to the difference between the Fair Market Value of the Shares which would have been purchased pursuant to the exercise (determined on the date the Option is canceled) and the aggregate exercise price which would have been paid.

(iv) Incentive Stock Options. Notwithstanding anything in the Plan to the contrary, the following additional provisions shall apply to the grant of stock options which are intended to qualify as Incentive Stock Options:

(A) To the extent that the aggregate Fair Market Value (determined at the time of grant) of the Shares with respect to which Incentive Stock Options are exercisable for the first time by any Participant during any calendar year (under all plans of the Company and its Affiliates) exceeds \$100,000, the Options or portions thereof which exceed such limit (according to the order in which they were granted) shall be treated as Non-Qualified Stock Options.

(B) All Incentive Stock Options must be granted within ten years from the earlier of the date on which this Plan was adopted by the Board or the date this Plan was approved by the stockholders of the Company.

(C) Unless sooner exercised, all Incentive Stock Options shall expire and no longer be exercisable no later than 10 years after the date of grant; *provided, however*, that in the case of a grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliate, such Incentive Stock Option shall expire and no longer be exercisable no later than 5 years from the date of grant.

(D) The purchase price per Share for an Incentive Stock Option shall be not less than 100% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option; *provided, however*, that, in the case of the grant of an Incentive Stock Option to a Participant who, at the time such Option is granted, owns (within the meaning of Section 422 of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or of its Affiliate, the purchase price per Share purchasable under an Incentive Stock Option shall be not less than 110% of the Fair Market Value of a Share on the date of grant of the Incentive Stock Option.

(E) Any Incentive Stock Option authorized under the Plan shall contain such other provisions as the Committee shall deem advisable, but shall in all events be consistent with and contain all provisions required in order to qualify the Option as an Incentive Stock Option.

(b) Stock Appreciation Rights. The Committee is hereby authorized to grant Stock Appreciation Rights to Eligible Persons subject to the terms of the Plan and any applicable Award Agreement. Each Stock Appreciation Right granted under the Plan shall, upon exercise, confer on the holder the right to receive, as determined by the Committee, cash or a number of Shares equal to the excess of (i) the Fair Market Value of one Share on the date of exercise (or, if the Committee shall so determine, at any time during a specified period before or after the date of exercise) over (ii) the grant price of the Stock Appreciation Right as determined by the Committee, which grant price shall not be less than 100% of the Fair Market Value of one Share on the date of grant of the Stock Appreciation Right. Subject to the terms of the Plan and any applicable Award Agreement, the grant price, term, methods of exercise, dates of exercise, methods of settlement and any other terms and conditions (including conditions or restrictions on the exercise thereof) of any Stock Appreciation Right shall be as determined by the Committee.

(c) Restricted Stock and Restricted Stock Units. The Committee is hereby authorized to grant Restricted Stock and Restricted Stock Units to Eligible Persons with the following terms and conditions and with such additional terms and conditions not inconsistent with the provisions of the Plan as the Committee shall determine:

(i) Restrictions. Shares of Restricted Stock and Restricted Stock Units shall be subject to such restrictions as the Committee may impose (including, without limitation, any limitation on the right to vote a Share of Restricted Stock, or prohibition against the right to receive any dividend or other right or property with respect thereto), which restrictions may lapse separately or in combination at such time or times, in such installments or otherwise as the Committee may deem appropriate.

(ii) Issuance and Delivery of Shares. Any Restricted Stock granted under the Plan shall be issued at the time such Awards are granted and may be evidenced in such manner as the Committee may deem appropriate, including book-entry registration or issuance of a stock certificate or certificates, which certificate or certificates shall be held by the Company. Such certificate or certificates shall be registered in the name of the Participant and shall bear an appropriate legend referring to the restrictions applicable to such Restricted Stock. Shares representing Restricted Stock that is no longer subject to

restrictions shall be delivered to the Participant promptly after the applicable restrictions lapse or are waived. In the case of Restricted Stock Units, no Shares shall be issued at the time such Awards are granted. Upon the lapse or waiver of restrictions and the restricted period relating to Restricted Stock Units evidencing the right to receive Shares, such Shares shall be issued and delivered to the holder of the Restricted Stock.

(iii) Forfeiture. Except as otherwise determined by the Committee, upon a Participant's termination of employment or resignation or removal as a Director (in either case as determined under criteria established by the Committee) during the applicable restriction period, all applicable Shares of Restricted Stock and Restricted Stock Units at such time subject to restriction shall be forfeited and reacquired by the Company; *provided, however*, that the Committee may, when it finds that a waiver would be in the best interests of the Company, waive in whole or in part any or all remaining restrictions with respect to Shares of Restricted Stock or Restricted Stock Units.

(d) Performance Awards. The Committee is hereby authorized to grant Performance Awards to Eligible Persons subject to the terms of the Plan. A Performance Award granted under the Plan (i) may be denominated or payable in cash, Shares (including, without limitation, Restricted Stock and Restricted Stock Units), other securities, other Awards or other property and (ii) shall confer on the holder thereof the right to receive payments, in whole or in part, upon the achievement of such Performance Goals during such performance periods as the Committee shall establish. Subject to the terms of the Plan, the Performance Goals to be achieved during any performance period, the length of any performance period, the amount of any Performance Award granted, the amount of any payment or transfer to be made pursuant to any Performance Award and any other terms and conditions of any Performance Award shall be determined by the Committee.

(e) Other Stock Grants. The Committee is hereby authorized, subject to the terms of the Plan, to grant to Eligible Persons Shares without restrictions thereon as are deemed by the Committee to be consistent with the purpose of the Plan.

(f) Other Stock-Based Awards. The Committee is hereby authorized to grant to Eligible Persons, subject to the terms of the Plan, such other Awards that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to, Shares (including, without limitation, securities convertible into Shares), as are deemed by the Committee to be consistent with the purpose of the Plan. Shares or other securities delivered pursuant to a purchase right granted under this Section 6(f) shall be purchased for such consideration, which may be paid by such method or methods and in such form or forms (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), as the Committee shall determine.

(g) General

(i) Consideration for Awards. Awards may be granted for no cash consideration or for any cash or other consideration as determined by the Committee and required by applicable law.

(ii) Requirements for Issuance of Shares and Effectiveness of Awards. Except as specifically provided by the Plan or the instrument evidencing an Award, a Participant shall not become a stockholder of the Company until (A) the Participant makes any required payments in respect of the Shares issued or issuable pursuant to the Award; (b) the Participant furnishes the Company with any required agreements, certificates, letters or other instruments; and (c) the Participant actually receives the Shares. Subject to any terms and conditions imposed by the Plan or the instrument evidencing an Award, upon the occurrence of all of the conditions set forth in the immediately preceding sentence, a Participant shall have all rights of a stockholder with respect to such Shares, including, but not limited to, the right to vote such Shares and to receive dividends and other distributions paid with respect to such Shares.

(iii) Awards May Be Granted Separately or Together. Awards may, in the discretion of the Committee, be granted either alone or in addition to, in tandem with or in substitution for any other Award or any award granted under any plan of the Company or any Affiliate. Awards granted in addition to or in tandem with other Awards or in addition to or in tandem with awards granted under any such other plan of the Company or any Affiliate may be granted either at the same time as or at a different time from the grant of such other Awards or awards.

(iv) Forms of Payment under Awards. Subject to the terms of the Plan and any applicable Award Agreement, payments or transfers to be made by the Company or an Affiliate upon the grant, exercise or payment of an Award may be made in such form or forms as the Committee shall determine (including, without limitation, cash, Shares, other securities, other Awards or other property or any combination thereof), and may be made in a single payment or transfer, or in installments, in each case in accordance with rules and procedures established by the Committee. Such rules and procedures may include, without limitation, provisions for the payment or crediting of reasonable interest on installment or deferred payments.

(v) Limits on Transfer of Awards. No Award (other than Other Stock Grants) and no right under any such Award shall be transferable by a Participant otherwise than by will or by the laws of descent and distribution and the Company shall not be required to recognize any attempted assignment of such rights by any Participant; *provided, however,* that, if so determined by the Committee, a Participant may, in the manner established by the Committee, designate a beneficiary or beneficiaries to exercise the rights of the Participant and receive any property distributable with respect to any Award upon the death of the Participant; *provided, further,* that, if so determined by the Committee, a Participant may transfer a Non-Qualified Stock Option to any "family member" (as such term is defined in the General Instructions to Form S-8 (or successor to such Instructions or such Form)) at any time that such Participant holds such Option, *provided* that the Participant may not receive any consideration for such transfer, the "family member" may not make any subsequent transfers other than by will or by the laws of descent and distribution and the Company receives written notice of such transfer, *provided, further,* that, if so determined by the Committee and except in the case of an Incentive Stock Option, Awards may be transferable as determined by the Committee. Except as otherwise determined by the Committee (for Awards other than an

Incentive Stock Option), each Award or right under any such Award shall be exercisable during the Participant's lifetime only by the Participant or, if permissible under applicable law, by the Participant's guardian or legal representative. Except as otherwise determined by the Committee (for Awards other than an Incentive Stock Option), no Award or right under any such Award may be pledged, alienated, attached or otherwise encumbered, and any purported pledge, alienation, attachment or other encumbrance thereof shall be void and unenforceable against the Company or any Affiliate.

(vi) Term of Awards. Subject to Section 6(a)(iv)(C), the term of each Award shall be for such period as may be determined by the Committee.

(vii) Restrictions: Securities Exchange Listing. Notwithstanding any other provision of the Plan, the Company shall not be obligated to deliver any Shares pursuant to the Plan or to remove any restriction from Shares previously delivered under the Plan: (A) until all conditions to the Award have been satisfied or removed; (B) until, in the opinion of counsel to the Company, all applicable federal and state laws and regulations have been complied with; (C) if the Shares are at the time listed on any stock exchange or included for quotation on an inter-dealer system, until the shares to be delivered have been listed or included or authorized to be listed or included on such exchange or system upon official notice or notice of issuance; (D) if it might cause the Company to issue or sell more Shares than the Company is then legally entitled to issue or sell; and (e) until all other legal matters in connection with the issuance and delivery of such Shares have been approved by counsel to the Company.

(viii) Limits on Sale of Shares. All Shares or other securities delivered under the Plan pursuant to any Award or the exercise thereof shall be subject to such stop transfer orders and other restrictions as the Committee may deem advisable under the Plan, applicable federal or state securities laws and regulatory requirements, and the Committee may direct appropriate stop transfer orders and cause other legends to be placed on the certificates for such Shares or other securities to reflect such restrictions.

(ix) Prohibition on Repricing. Except as provided in Section 4(c) hereof, no Option or Stock Appreciation Right may be amended to reduce its initial exercise price and no Option or Stock Appreciation Right shall be canceled and replaced with an Option or Options or Stock Appreciation Right having a lower exercise price, without the approval of the stockholders of the Company or unless there would be no material adverse effect on the Company's financial statements as prepared in accordance with Generally Accepted Accounting Principles.

Section 7. Events Affecting Outstanding Awards

(a) Additional Definitions for this Section.

(i) "*Change in Control*" shall mean the occurrence of any of the following events: (A) One Person (or more than one Person acting as a group) acquires ownership of stock of the Company that, together with the stock held by such person or group, constitutes more than 50% of the total fair market value or total voting power of the stock

of the Company; *provided, that*, a Change in Control shall not occur if any Person (or more than one Person acting as a group) owns more than 50% of the total fair market value or total voting power of the Company's stock and acquires additional stock; (B) One Person (or more than one Person acting as a group) acquires (or has acquired during the twelve-month period ending on the date of the most recent acquisition) ownership of the Company's stock possessing 50% or more of the total voting power of the stock of the Company; or (C) A majority of the members of the Board are replaced during any twelve-month period by directors whose appointment or election is not endorsed by a majority of the Board before the date of appointment or election.

(ii) "*Status Change*" shall mean where a Participant ceases to be an Employee or there is a termination of the consulting service or other relationship in respect of which a non-Employee Participant was granted an Award.

(b) Termination of Service Resulting from Death or Disability. If a Participant suffers a Status Change by reason of death or permanent disability (as determined by the Board), the following rules shall apply, unless otherwise determined by the Board:

(i) All Options held by the Participant at the time of such Status Change, to the extent then exercisable, will continue to be exercisable by the Participant's heirs, executor, administrator or other legal or personal representative, for a period of six months after the Participant's Status Change. After the expiration of such six month period, all such Options shall terminate. In no event, however, shall an Option remain exercisable beyond the latest date on which it could have been exercised without regard to this Section 7. All Options held by a Participant at the time of such Status Change that are not then exercisable shall terminate upon such Status Change.

(ii) All Restricted Stock held by the Participant at the time of such Status Change shall immediately become free of all restrictions and conditions.

(iii) Any payment or benefit under a Performance Award to which the Participant was not irrevocably entitled at the time of such Status Change shall be forfeited and the Award canceled as of the time of such Status Change.

(c) Termination of Service Resulting from Other than Death or Disability. If a Participant suffers a Status Change other than by reason of death or permanent disability, the following rules shall apply, unless otherwise determined by the Board at the time of grant of an Award:

(i) All Options held by the Participant at the time of such Status Change, to the extent then exercisable, will continue to be exercisable by the Participant for a period of one month after the Participant's Status Change. After the expiration of such one month period, all such Options shall terminate. In no event however, shall an Option remain exercisable beyond the latest date on which it could have been exercised without regard to this Section 7. All Options held by a Participant at the time of such Status Change that are not then exercisable shall terminate upon such Status Change.

(ii) All Restricted Stock held by the Participant at the time of such Status Change shall immediately become free of all restrictions and conditions, unless such Status Change results from a voluntary resignation or termination for Cause (as defined herein), in which event all Restricted Stock held by the Participant at the time of the Status Change shall be transferred to the Company (and, in the event the certificates representing such Restricted Stock are held by the Company, such Restricted Stock shall be so transferred without any further action by the Participant).

(iii) Any payment or benefit under a Performance Award to which the Participant was not irrevocably entitled at the time of such Status Change shall be forfeited and the Award canceled as of the date of such Status Change.

(iv) A termination by the Company of a Participant's employment with or service to the Company shall be for "Cause" only if the Board determined that the Participant: (1) was guilty of gross negligence or willful misconduct in the performance of his or her duties for the Company; (2) had failed to perform the requirements of their job position or function in any material respect; (3) had breached or violated, in a material respect, any agreement between the Participant and the Company or any of the Company's policy statements regarding conflicts-of-interest, insider trading or confidentiality; (4) had committed a material act of dishonesty or breach of trust; (5) had engaged in conduct that was potentially detrimental to the business, reputation, character and standing of the Company; or (6) had committed a felony. Determination of Cause shall be made by the Board in its sole discretion.

(v) For all purposes of this Section 7, if a Participant is an Employee of an Affiliate that ceases to be an Affiliate, then the Participant's employment with the Company will be deemed to have been terminated by the Company without Cause, unless the Participant is transferred to the Company or another Affiliate. Further, the employment with the Company of a Participant will not be deemed to have been terminated if the Participant is transferred from the Company to an Affiliate, or vice versa, or from one Affiliate of the Company to another.

(d) Change in Control. In the event of a Change in Control, the following rules will apply, unless otherwise expressly provided by the Board at the time of the grant of an Award or unless determined by the Board in accordance with the provisions of this section:

(i) 50% of each unvested outstanding Option shall automatically become exercisable in full six months after the occurrence of such Change in Control or, if sooner, upon a termination by the Company of the Participant's employment with or service to the Company for any reason other than for Cause. This provision shall not prevent an Option from becoming exercisable sooner where it would otherwise have become exercisable under such Option during such period.

(ii) 50% of each unvested outstanding share of Restricted Stock shall automatically become free of all restrictions and conditions six months after the occurrence of such Change in Control or, if sooner, upon a termination by the Company of the Participant's employment with or service to the Company for any reason other than

for Cause. This provision shall not prevent the earlier lapse of any restrictions or conditions on Restricted Stock that would otherwise have lapsed during such period.

(iii) Conditions on Performance Awards which relate only to the passage of time and continued employment shall automatically terminate six months after the occurrence of such Change in Control or, if sooner, upon a termination by the Company of the participant's employment with or service to the Company for any reason other than for Cause. This provision shall not prevent the earlier lapse of any conditions relating to the passage of time and continued employment that would otherwise have lapsed during such period. Performance or other conditions (other than conditions relating only to the passage of time and continued employment) shall continue to apply unless otherwise provided in the instrument evidencing the Award or in any other agreement between the Participant and the Company or unless otherwise agreed to by the Board.

(iv) The Board shall have discretion, on a case by case basis, to increase the percentage of invested outstanding Options or Restricted Stock that shall vest upon a Change in Control.

Section 8. Amendment and Termination; Adjustments

(a) Amendments to the Plan. The Board may amend, alter, suspend, discontinue or terminate the Plan at any time; *provided, however*, that, notwithstanding any other provision of the Plan or any Award Agreement, without the approval of the stockholders of the Company, no such amendment, alteration, suspension, discontinuation or termination shall be made that, absent such approval:

(i) violates the rules or regulations of any securities exchange that are applicable to the Company;

(ii) causes the Company to be unable, under the Code, to grant Incentive Stock Options under the Plan;

(iii) increases the number of shares authorized under the Plan as specified in Section 4(a); or

(iv) permits the award of Options or Stock Appreciation Rights at a price less than 100% of the Fair Market Value of a Share on the date of grant of such Option or Stock Appreciation Right, as prohibited by Sections 6(a)(i) and 6(b) of the Plan or the repricing of Options or Stock Appreciation Rights, as prohibited by Section 6(g)(ix) of the Plan.

(b) Amendments to Awards. The Committee may waive any conditions of or rights of the Company under any outstanding Award, prospectively or retroactively. Except as otherwise provided herein or in an Award Agreement, the Committee may not amend, alter, suspend, discontinue or terminate any outstanding Award, prospectively or retroactively, if such action would adversely affect the rights of the holder of such Award, without the consent of the Participant or holder or beneficiary thereof, except as provided under Section 11 of this Plan.

(c) Correction of Defects, Omissions and Inconsistencies. The Committee may correct any defect, supply any omission or reconcile any inconsistency in the Plan or any Award in the manner and to the extent it shall deem desirable to carry the Plan into effect.

Section 9. Income Tax Withholding

In order to comply with all applicable federal, state or local income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state, local or foreign payroll, withholding, income or other taxes, which are the sole and absolute responsibility of a Participant, are withheld or collected from such Participant. In order to assist a Participant in paying all or a portion of the applicable taxes to be withheld or collected upon exercise or receipt of (or the lapse of restrictions relating to) an Award, the Committee, in its discretion and subject to such additional terms and conditions as it may adopt, may permit the Participant to satisfy such tax obligation by (a) electing to have the Company withhold a portion of the Shares otherwise to be delivered upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes or (b) delivering to the Company Shares other than Shares issuable upon exercise or receipt of (or the lapse of restrictions relating to) such Award with a Fair Market Value equal to the amount of such taxes. The election, if any, must be made on or before the date that the amount of tax to be withheld is determined.

Section 10. General Provisions

(a) No Rights to Awards. No Eligible Person or other Person shall have any claim to be granted any Award under the Plan, and there is no obligation for uniformity of treatment of Eligible Persons or holders or beneficiaries of Awards under the Plan. The terms and conditions of Awards need not be the same with respect to any Participant or with respect to different Participants.

(b) Award Agreements. No Participant will have rights under an Award granted to such Participant unless and until an Award Agreement shall have been duly executed on behalf of the Company and, if requested by the Company, signed by the Participant, or until such Award Agreement is delivered and, if required by the Committee, accepted through any electronic medium in accordance with procedures established by the Committee.

(c) Plan Provisions Control. In the event that any provision of an Award Agreement conflicts with or is inconsistent in any respect with the terms of the Plan as set forth herein or subsequently amended, the terms of the Plan shall control.

(d) No Rights of Stockholders. Except with respect to Shares of Restricted Stock as to which the Participant has been granted the right to vote, neither a Participant nor the Participant's legal representative shall be, or have any of the rights and privileges of, a stockholder of the Company with respect to any Shares issuable to such Participant upon the exercise or payment of any Award, in whole or in part, unless and until such Shares have been issued in the name of such Participant or such Participant's legal representative without restrictions thereto.

(e) No Limit on Other Compensation Arrangements. Nothing contained in the Plan shall prevent the Company or any Affiliate from adopting or continuing in effect other or additional

compensation arrangements, and such arrangements may be either generally applicable or applicable only in specific cases.

(f) No Right to Employment. The grant of an Award shall not be construed as giving a Participant the right to be retained in the employ, or as giving a Director of the Company or an Affiliate the right to continue as a Director or an Affiliate of the Company or any Affiliate, nor will it affect in any way the right of the Company or an Affiliate to terminate such employment at any time, with or without cause or remove a Director in accordance with applicable law. In addition, the Company or an Affiliate may at any time dismiss a Participant from employment, or terminate the term of a Director of the Company or an Affiliate, free from any liability or any claim under the Plan or any Award, unless otherwise expressly provided in the Plan or in any Award Agreement. Nothing in this Plan shall confer on any person any legal or equitable right against the Company or any Affiliate, directly or indirectly, or give rise to any cause of action at law or in equity against the Company or an Affiliate. The Awards granted hereunder shall not form any part of the wages or salary of any Eligible Person for purposes of severance pay or termination indemnities, irrespective of the reason for termination of employment. Under no circumstances shall any person ceasing to be an employee of the Company or any Affiliate be entitled to any compensation for any loss of any right or benefit under the Plan which such employee might otherwise have enjoyed but for termination of employment, whether such compensation is claimed by way of damages for wrongful or unfair dismissal, breach of contract or otherwise. By participating in the Plan, each Participant shall be deemed to have accepted all the conditions of the Plan and the terms and conditions of any rules and regulations adopted by the Committee and shall be fully bound thereby.

(g) Governing Law. The validity, construction and effect of the Plan or any Award, and any rules and regulations relating to the Plan or any Award, shall be determined in accordance with the law of the state of Delaware, without regard to such state's conflict of law rules.

(h) Severability. If any provision of the Plan or any Award is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or any Award under any law deemed applicable by the Committee, such provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or the Award, such provision shall be stricken as to such jurisdiction or Award, and the remainder of the Plan or any such Award shall remain in full force and effect.

(i) No Trust or Fund Created. Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company or any Affiliate and an Eligible Person or any other Person. To the extent that any Person acquires a right to receive payments from the Company or any Affiliate pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company or any Affiliate.

(j) Other Benefits. No compensation or benefit awarded to or realized by any Participant under the Plan shall be included for the purpose of computing such Participant's compensation under any compensation-based retirement, disability, or similar plan of the Company unless required by law or otherwise provided by such other plan.

(k) No Fractional Shares. No fractional Shares shall be issued or delivered pursuant to the Plan or any Award, and the Committee shall determine whether cash shall be paid in lieu of any fractional Shares or whether such fractional Shares or any rights thereto shall be canceled, terminated or otherwise eliminated.

(l) Headings. Headings are given to the Sections and subsections of the Plan solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of the Plan or any provision thereof.

(m) Section 16 Compliance. The Plan is intended to comply in all respects with Rule 16b-3 or any successor provision, as in effect from time to time, and in all events the Plan shall be construed in accordance with the requirements of Rule 16b-3. If any Plan provision does not comply with Rule 16b-3 as hereafter amended or interpreted, the provision shall be deemed inoperative. The Board of Directors, in its absolute discretion, may bifurcate the Plan so as to restrict, limit or condition the use of any provision of the Plan with respect to persons who are officers or directors subject to Section 16 of the Exchange Act without so restricting, limiting or conditioning the Plan with respect to other Eligible Persons.

(n) Conditions Precedent to Issuance of Shares: Notices.

(i) Shares shall not be issued pursuant to the exercise or payment of the purchase price relating to an Award unless such exercise or payment and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act, the Exchange Act, the rules and regulations promulgated thereunder, the requirements of any applicable stock exchange and the laws of the state of Delaware. As a condition to the exercise or payment of the purchase price relating to such Award, the Company may require that the person exercising or paying the purchase price represent and warrant that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares if, in the opinion of counsel for the Company, such a representation and warranty is required by law.

(ii) All notices with respect to the Plan shall be in writing and shall be hand delivered or sent by certified mail or reputable overnight delivery service, expenses prepaid. Notices to the Company or the Board shall be delivered or sent to the Company's headquarters to the attention of its Chief Executive Officer. Notices to any Participant or holder of Shares issued pursuant to an Award shall be sufficient if delivered or sent to such person's address as it appears in the regular records of the Company or the Company's transfer agent.

(o) Participant's Agreement and Acknowledgements Regarding Taxes.

(i) By accepting an Award, each Participant agrees that the Company, to the extent permitted or required by law, shall have the right (but not the obligation) to deduct a sufficient number of shares or money due to the Participant upon exercise of an Option or an Stock Appreciation Right or the grant of Restricted Stock or a Restricted Stock Unit to allow the Company to pay federal, state and local taxes of any kind required by law to

be withheld upon the exercise or payment of such Award from any payment of any kind otherwise due to the Participant. The Company shall not be obligated to advise any Participant of the existence of any tax or the amount which the Company will be so required to withhold.

(ii) By accepting an Award, each Participant acknowledges that the Company has advised such Participant to discuss the grant of such Award with the Recipient's tax, legal, investment, and other advisors as the Participant and such advisors determine to be appropriate, and that such consultation shall include (to the extent determined by the Participant and Participant's advisors) a discussion of the advisability of making an election under Section 83 of the Internal Revenue Code.

(iii) Participant further acknowledges that: (A) Section 83 of the Code taxes as ordinary income the difference between the purchase price for Shares and the Fair Market Value of Shares as of the date any forfeiture restrictions on the Shares terminates or lapses; (B) Participant may elect to be taxed at the time the Shares are issued, rather than when and as the forfeiture restrictions terminate or lapse (if ever), by filing an election under Section 83(b) of the Code with the Internal Revenue Service within thirty days from the date the Shares were issued; and (C) it is Participant's responsibility (and not the Company's) to file timely the election under Section 83(b), even if Participant requests the Company or its representatives to make that filing on its behalf.

Section 11. Section 409A

(a) Time and Form of Payment. Notwithstanding anything contained in this Plan or in an Award Agreement to the contrary, the time and form of payment of an Award that is subject to the limitations imposed by Section 409A of the Code, shall be set forth in the applicable Award Agreement on or before the time at which the Participant obtains a legally binding right to the Award (or such other time permitted under Section 409A of the Code) and such time and form of payment shall comply with the requirements of Section 409A of the Code.

(b) Delay in Payment. Notwithstanding anything contained in this Plan or an Award Agreement to the contrary, if the Participant is deemed by the Company at the time of the Participant's "separation from service" with the Company to be a "specified employee" as determined under Section 409A of the Code, any "nonqualified deferred compensation" to which the Participant is entitled in connection with such separation from service after taking into account all applicable exceptions from Section 409A, shall not be paid or commence payment until the date that is the first business day following the six month period after the Participant's separation from service (or if earlier, the Participant's death). Such delay in payment shall only be effected with respect to each separate payment to the extent required to avoid adverse tax treatment to the Participant under Section 409A of the Code. Any compensation which would have otherwise been paid during the delay period (whether in a lump sum or in installments) in the absence of this Section 11(b) shall be paid to the Participant (or his or her beneficiary or estate) in a lump sum payment on the first business day following the expiration of the delay period.

(c) Key Definitions. For purposes of this Plan, the term “termination of employment” shall mean “separation from service” and the terms “separation from service,” “specified employee” and “nonqualified deferred compensation” shall have the meanings ascribed to the terms pursuant to Section 409A and other applicable guidance.

(d) Amendments. Notwithstanding anything in the Plan to the contrary, the Plan and Awards granted under the Plan are intended to be eligible for certain regulatory exceptions to the limitations of, or to comply with, the requirements of Section 409A of the Code. The Committee, in the exercise of its sole discretion and without the consent of the Participant, may amend or modify the terms of an Award in any manner and delay the payment of any amounts payable pursuant to an Award to the minimum extent necessary to reasonably comply with the requirements of Section 409A of the Code, provided that the Company shall not be required to assume any increased economic burden. No action taken by the Committee with respect to the requirements of Section 409A of the Code shall be deemed to adversely affect a Participant’s rights with respect to an Award or to require the consent of such Participant. The Committee reserves the right to make additional changes to the Plan and Awards from time to time to the extent it deems necessary with respect to Section 409A of the Code.

Section 12. Effective Date of the Plan

The Plan shall be effective upon its adoption by the Board, *provided, however*, that in the event the Plan is not approved by the stockholders of the Company within one year thereafter, no Option granted pursuant to this Plan shall qualify as an Incentive Stock Option.

Section 13. Term of the Plan

No Award shall be granted under the Plan after ten years from the earlier of the date of adoption of the Plan by the Board or the date of stockholder approval or any earlier date of discontinuation or termination established pursuant to Section 8(a) of the Plan. However, unless otherwise expressly provided in the Plan or in an applicable Award Agreement, any Award theretofore granted may extend beyond such date, and the authority of the Committee provided for hereunder with respect to the Plan and any Awards, and the authority of the Board to amend the Plan, shall extend beyond the termination of the Plan.

**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 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 19, 2018

/s/ Scott L. Mathis

Name: Scott L. Mathis
Title: Chief Executive Officer
(Principal Executive Officer)

**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 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 19, 2018

/s/ Maria Echevarria

Name: Maria I. Echevarria
Title: Chief Financial Officer
(Principal Financial Officer)

**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 Group, Inc. (the “Company’s Quarterly Report”) on Form 10-Q for the period ended September 30, 2018, 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

Scott L. Mathis
Chief Executive Officer and Principal Executive Officer

Dated: November 19, 2018

/s/ Maria I. Echevarria

Maria I. Echevarria
Chief Financial Officer and Principal Financial Officer

Dated: November 19, 2018

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.
