

Section 1: 10-Q (10-Q)

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 March 31, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-31458

Drive Shack Inc.

(Exact name of registrant as specified in its charter)

Maryland

(State or other jurisdiction of incorporation
or organization)

81-0559116

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

111 W. 19th Street, New York, NY

(Address of principal executive offices)

10011

(Zip Code)

(516) 268-7460

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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 S No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

S Yes No £

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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. (Check one):

Large accelerated filer £ Accelerated filer S Non-accelerated filer £ (Do not check if a smaller reporting company)

Smaller reporting company £ Emerging growth company £

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes £ No S

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 66,977,104 shares outstanding as of April 26, 2018.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, the operating performance of our investments, the stability of our earnings, and our financing needs. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “predict,” “continue” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- the ability to retain and attract members to our golf properties;
- changes in global, national and local economic conditions, including, but not limited to, changes in consumer spending patterns, a prolonged economic slowdown and a downturn in the real estate market;
- effects of unusual weather patterns and extreme weather events, geographical concentrations with respect to our operations and seasonality of our business;
- competition within the industries in which we operate or may pursue additional investments, including competition for sites for our Entertainment Golf venues;
- material increases in our expenses, including but not limited to unanticipated labor issues, rent or costs with respect to our workforce, and costs of goods, utilities and supplies;
- our inability to sell or exit certain properties, and unforeseen changes to our ability to develop, redevelop or renovate certain properties;
- our ability to further invest in our business and implement our strategies;
- difficulty monetizing our real estate debt investments;
- liabilities with respect to inadequate insurance coverage, accidents or injuries on our properties, adverse litigation judgments or settlements, or membership deposits;
- changes to and failure to comply with relevant regulations and legislation, including in order to maintain certain licenses and permits, and environmental regulations in connection with our operations;
- inability to execute on our growth and development strategy by successfully developing, opening and operating new venues;
- impacts of failures of our information technology and cybersecurity systems;
- the impact of any current or further legal proceedings and regulatory investigations and inquiries;
- the impact of any material transactions with FIG LLC (the former “Manager”) or one of its affiliates, including the termination of our management agreement and the transition services agreement and the impact of any actual, potential or predicted conflicts of interest;
- the effect of the internalization of the Company’s management (the “Internalization”) on our business and operations; and
- other risks detailed from time to time below, particularly under the heading “Risk Factors,” and in our other reports filed with or furnished to the Securities and Exchange Commission (the “SEC”).

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management’s views only as of the date of this report. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Drive Shack Inc. (the "Company") or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company's other public filings, which are available without charge through the SEC's website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

DRIVE SHACK INC.
FORM 10-Q

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DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	March 31, 2018	December 31, 2017
	(Unaudited)	
Assets		
Current Assets		
Cash and cash equivalents	\$ 137,028	\$ 167,692
Restricted cash	3,162	5,178
Accounts receivable, net	9,046	8,780
Real estate assets, held-for-sale	164,040	2,000
Real estate securities, available-for-sale	2,362	2,294
Other current assets	25,815	21,568
Total Current Assets	341,453	207,512
Restricted cash, noncurrent	821	818
Property and equipment, net of accumulated depreciation	86,850	241,258
Intangibles, net of accumulated amortization	54,896	57,276
Other investments	21,514	21,135
Other assets	8,442	8,649
Total Assets	\$ 513,976	\$ 536,648
Liabilities and Equity		
Current Liabilities		
Obligations under capital leases	\$ 4,892	\$ 4,652
Membership deposit liabilities	8,715	8,733
Accounts payable and accrued expenses	34,513	36,797
Deferred revenue	13,636	31,207
Real estate liabilities, held-for-sale	13,487	—
Other current liabilities	16,532	22,596
Total Current Liabilities	91,775	103,985
Credit facilities and obligations under capital leases	112,156	112,105
Junior subordinated notes payable	51,206	51,208
Membership deposit liabilities, noncurrent	88,247	86,523
Deferred revenue, noncurrent	7,332	6,930
Other liabilities	4,779	4,846
Total Liabilities	\$ 355,495	\$ 365,597
Commitments and contingencies		
Equity		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share, issued and outstanding as of March 31, 2018 and December 31, 2017	\$ 61,583	\$ 61,583
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 66,977,104 and 66,977,104 shares issued and outstanding at March 31, 2018 and December 31, 2017, respectively	670	670
Additional paid-in capital	3,173,559	3,173,281
Accumulated deficit	(3,078,734)	(3,065,853)
Accumulated other comprehensive income	1,403	1,370
Total Equity	\$ 158,481	\$ 171,051
Total Liabilities and Equity	\$ 513,976	\$ 536,648

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2018	2017
Revenues		
Golf course operations	\$ 53,554	\$ 46,296
Sales of food and beverages	13,106	12,845
Total revenues	66,660	59,141
Operating costs		
Operating expenses	57,379	50,509
Cost of sales - food and beverages	4,040	4,032
General and administrative expense	9,192	7,487
Management fee to affiliate	—	2,677
Depreciation and amortization	5,548	5,793
Pre-opening costs	1,556	—
Impairment	1,473	—
Realized and unrealized (gain) loss on investments	(242)	3,389
Total operating costs	78,946	73,887
Operating loss	(12,286)	(14,746)
Other income (expenses)		
Interest and investment income	446	7,888
Interest expense, net	(4,049)	(5,434)
Other loss, net	(406)	(123)
Total other income (expenses)	(4,009)	2,331
Loss before income tax	(16,295)	(12,415)
Income tax expense	—	539
Net Loss	(16,295)	(12,954)
Preferred dividends	(1,395)	(1,395)
Loss Applicable to Common Stockholders	\$ (17,690)	\$ (14,349)
Loss Applicable to Common Stock, per share		
Basic	\$ (0.26)	\$ (0.21)
Diluted	\$ (0.26)	\$ (0.21)
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	66,977,104	66,841,977
Diluted	66,977,104	66,841,977
Dividends Declared per Share of Common Stock	\$ —	\$ —

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)**

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2018	2017
Net loss	\$ (16,295)	\$ (12,954)
Other comprehensive income (loss):		
Net unrealized gain on available-for-sale securities	33	47
Other comprehensive income	33	47
Total comprehensive loss	\$ (16,262)	\$ (12,907)
Comprehensive loss attributable to Drive Shack Inc. stockholders' equity	\$ (16,262)	\$ (12,907)

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2018

(dollars in thousands, except share data)

	Drive Shack Inc. Stockholders							
	Preferred Stock		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comp. Income	Total Equity (Deficit)
	Shares	Amount	Shares	Amount				
Equity (deficit) - December 31, 2017	2,463,321	\$ 61,583	66,977,104	\$ 670	\$ 3,173,281	\$ (3,065,853)	\$ 1,370	\$ 171,051
Dividends declared	—	—	—	—	—	(1,395)	—	(1,395)
Stock-based compensation	—	—	—	—	278	—	—	278
Adoption of ASC 606 (Note 3)	—	—	—	—	—	4,809	—	4,809
Comprehensive income (loss)								
Net loss	—	—	—	—	—	(16,295)	—	(16,295)
Other comprehensive income	—	—	—	—	—	—	33	33
Total comprehensive loss								(16,262)
Equity (deficit) - March 31, 2018	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>66,977,104</u>	<u>\$ 670</u>	<u>\$ 3,173,559</u>	<u>\$ (3,078,734)</u>	<u>\$ 1,403</u>	<u>\$ 158,481</u>

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2018	2017
Cash Flows From Operating Activities		
Net loss	\$ (16,295)	\$ (12,954)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	5,548	5,793
Amortization of discount and premium	288	620
Other amortization	2,711	2,614
Net interest income on investments accrued to principal balance	—	(3,431)
Amortization of revenue on golf membership deposit liabilities	(349)	(305)
Amortization of prepaid golf membership dues	(6,270)	(6,283)
Non-cash directors' compensation	—	75
Stock-based compensation	278	—
Impairment	1,473	—
Equity in earnings from equity method investments, net of distributions	(379)	(379)
Loss on settlement of investments, net	2	473
Unrealized (gain) loss on investments	(242)	3,060
Loss on extinguishment of debt	52	146
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	(1,983)	(645)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	(353)	1,404
Net cash used in operating activities	(15,519)	(9,812)
Cash Flows From Investing Activities		
Principal repayments from investments	—	10,707
Proceeds from sale of securities and loans	—	286,639
Net proceeds for settlement of TBAs	—	2,474
Acquisition and additions of property and equipment and intangibles	(13,080)	(3,971)
Deposits paid on property and equipment	(2,298)	(80)
Net cash (used in) provided by investing activities	(15,378)	295,769
Cash Flows From Financing Activities		
Borrowings under debt obligations	—	1,007
Repayments of debt obligations	(1,141)	(292,237)
Margin deposits under repurchase agreements and derivatives	—	(48,406)
Return of margin deposits under repurchase agreements and derivatives	—	50,156
Golf membership deposits received	861	695
Common stock dividends paid	—	(8,019)
Preferred stock dividends paid	(1,395)	(1,395)
Payment of deferred financing costs	—	(22)
Other financing activities	(105)	(97)
Net cash used in financing activities	(1,780)	(298,318)
Net Decrease in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	(32,677)	(12,361)
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period	173,688	146,544
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period	\$ 141,011	\$ 134,183
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends declared but not paid	\$ 930	\$ 930
Additions to capital lease assets and liabilities	\$ 1,170	\$ 254
Additions to property and equipment and accounts payable	\$ 6,599	\$ —

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2018

(dollars in tables in thousands, except share data)

1. ORGANIZATION

Drive Shack Inc., which is referred to, together with its subsidiaries, "Drive Shack Inc." or the "Company" is a leading owner and operator of golf-related leisure and entertainment businesses. The Company, a Maryland corporation, was formed in 2002, and its common stock is traded on the NYSE under the symbol "DS."

The Company conducts its business through the following segments: (i) Traditional Golf properties, (ii) Entertainment Golf venues, (iii) Debt Investments and (iv) corporate. For a further discussion of the reportable segments, see Note 4.

The Company's Traditional Golf business is one of the largest owners and operators of golf properties in the United States. As of March 31, 2018, the Company owned, leased or managed 74 properties across 12 states.

The Company opened its first Entertainment Golf venue in Orlando, Florida on April 7, 2018. The Company expects to open a chain of next-generation Entertainment Golf venues across the United States and internationally which combine golf, competition, dining and fun.

On December 21, 2017, the Company announced the Internalization effective January 1, 2018. The Company agreed with the former Manager to terminate the existing Management Agreement and arrange for the former Manager to continue to provide certain services for a transition period. In connection with the termination of the Management Agreement, the Company made a one-time cash payment of \$10.7 million to the former Manager.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying Consolidated Financial Statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles ("GAAP") have been condensed or omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of the Company's financial position, results of operations and cash flows have been included and are of a normal and recurring nature. The operating results presented for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the entire year. These financial statements should be read in conjunction with the Company's Consolidated Financial Statements for the year ended December 31, 2017 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 13, 2018. Capitalized terms used herein, and not otherwise defined, are defined in the Company's Consolidated Financial Statements for the year ended December 31, 2017.

As of March 31, 2018, the Company's significant accounting policies for these financial statements are summarized below and should be read in conjunction with the Summary of Significant Accounting Policies detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Prior Period Reclassification — Certain prior period amounts have been reclassified to conform to the current period's presentation. Effective January 1, 2018, the Company internalized management (as discussed above) and records corporate overhead, including corporate payroll and related expenses, in "General and administrative expense" on the Consolidated Statements of Operations. Prior to January 1, 2018, the Company reported corporate overhead, including corporate payroll and related expenses, related to the Traditional Golf business in "Operating expenses" on the Consolidated Statements of Operations. The Company reclassified \$3.9 million from "Operating expenses" to "General and administrative expense" for the three months ended March 31, 2017.

The Company adopted ASU 2015-18 *Statement of Cash Flows (Topic 230), Restricted Cash* effective January 1, 2018, which requires retrospective adjustment to all periods. The addition of the reconciliation of restricted cash for three months ended March 31, 2017 included an increase of \$1.1 million in "Margin deposits under repurchase agreements and derivatives."

DRIVE SHACK INC. AND SUBSIDIARIES**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2018

(dollars in tables in thousands, except share data)

REVENUE RECOGNITION

Golf Course Operations — Revenue from green fees, cart rentals, merchandise sales and other operating activities (consisting primarily of range income, banquets and club amenities) are generally recognized at the time of sale, when services are rendered and collection is reasonably assured.

Revenue from membership dues for private club members and The Players Club members is recognized in the month earned. Membership dues received in advance are included in deferred revenue and recognized as revenue ratably over the appropriate period, which is generally twelve months or less for private club members and the following month for The Players Club members. The membership dues are generally structured to cover the club operating costs and membership services.

Private country club members generally pay an advance initiation fee deposit upon their acceptance as a member to the respective country club. Initiation fee deposits are refundable 30 years after the date of acceptance as a member. The difference between the initiation fee deposit paid by the member and the present value of the refund obligation is deferred and recognized into revenue in the Consolidated Statements of Operations on a straight-line basis over the expected life of an active membership, which is estimated to be seven years. The determination of the estimated average expected life of an active membership is a significant judgment based on company-specific historical membership addition and attrition data. The present value of the refund obligation is recorded as a membership deposit liability in the Consolidated Balance Sheets and accretes over a 30-year nonrefundable term using the effective interest method. This accretion is recorded as interest expense in the Consolidated Statements of Operations.

Revenue from the reimbursement of certain operating costs incurred at the Company's managed Traditional Golf properties is recognized at the time the associated operating costs are incurred as collection is reasonably assured per the terms of the management contracts and the repayment histories of the property owners.

Sales of Food and Beverages — Revenue from food and beverage sales are recorded at the time of sale.

Realized and Unrealized (Gain) Loss on Investments and Other Income (Loss), Net — These items are comprised of the following:

	Three Months Ended March 31,	
	2018	2017
Loss on settlement of real estate securities	\$ —	\$ 2,803
Unrealized loss on securities, intent-to-sell	—	558
Realized (gain) on settlement of TBAs, net	—	(2,474)
Unrealized (gain) loss on non-hedge derivative instruments	(242)	2,502
Realized and unrealized (gain) loss on investments	\$ (242)	\$ 3,389
Loss on lease modifications and terminations	\$ (771)	\$ (158)
Loss on extinguishment of debt, net	(52)	(146)
Collateral management fee income, net	154	122
Equity in earnings of equity method investments	379	379
(Loss) gain on disposal of long-lived assets	(206)	26
Other income (loss)	90	(346)
Other loss, net	\$ (406)	\$ (123)

EXPENSE RECOGNITION

Operating Expenses — Operating expenses for Traditional Golf consist primarily of payroll directly related to golf properties, equipment and cart leases, utilities, repairs and maintenance, supplies, seed, soil and fertilizer, marketing, certain operating costs incurred at managed Traditional Golf properties and operating lease rent expense. Many of the Traditional Golf properties and related facilities are leased under long-term operating leases. In addition to minimum payments, certain leases require payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments. The leases generally require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. The majority of lease terms initially range from 10 to 20 years, and typically, the leases contain renewal options. Certain leases include scheduled

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2018

(dollars in tables in thousands, except share data)

increases or decreases in minimum rental payments at various times during the term of the lease. These scheduled rent increases or decreases are recognized on a straight-line basis over the term of the lease. Increases result in an accrual, which is included in other current liabilities and other liabilities, and decreases result in a receivable, which is included in other current assets and other assets, for the amount by which the cumulative straight-line rent differs from the contractual cash rent.

Pre-Opening Costs — Pre-opening costs are expensed as incurred and consist primarily of marketing expenses, pre-opening rent, employee payroll, travel and related expenses, training costs, food, beverage and other restaurant operating expenses incurred prior to opening an Entertainment Golf venue.

Derivatives and Hedging Activities — All derivatives are recognized as either assets or liabilities on the balance sheet and measured at fair value. The Company reports the fair value of derivative instruments gross of cash paid or received pursuant to credit support agreements and fair value is reflected on a net counterparty basis when the Company believes a legal right of offset exists under an enforceable netting agreement. Changes in fair value are recorded in net income. Derivative transactions are entered into by the Company solely for risk management purposes in the ordinary course of business. As of March 31, 2018, the Company has one interest rate cap with a fair value of \$0.5 million which is not designated as a hedge.

BALANCE SHEET MEASUREMENT

Property and Equipment, Net — Real estate and related improvements are recorded at cost less accumulated depreciation. Costs that both materially add value to an asset and extend the useful life of an asset by more than a year are capitalized. With respect to golf course improvements (included in buildings and improvements), costs associated with construction, significant replacements, permanent landscaping, sand traps, fairways, tee boxes or greens are capitalized. All other asset-related costs that do not meet these criteria, such as minor repairs and routine maintenance, are expensed as incurred.

The Company capitalizes to construction in progress certain costs related to properties under development. Capitalization begins when the activities related to development have begun and ceases when activities are substantially complete and the asset is available for use. Capitalized costs include development, construction-related costs and interest expense.

Long-lived assets to be disposed of by sale, which meet certain criteria, are reclassified to real estate held-for-sale and measured at the lower of their carrying amount or fair value less costs of sale. Real estate held-for-sale is recorded in “Real estate assets, held-for-sale” and “Real estate liabilities, held-for-sale” on the Consolidated Balance Sheets. A disposal of a component of an entity or a group of components of an entity are reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the Company’s operations and financial results. Discontinued operations are retroactively reclassified to income (loss) from discontinued operations for all periods presented.

The Company leases certain golf carts and other equipment that are classified as capital leases. The value of capital leases is recorded as an asset on the balance sheet, along with a liability related to the associated payments. Depreciation of capital lease assets is calculated using the straight-line method over the shorter of the estimated useful lives and the expected lease terms. The cost of equipment under capital leases is included in property and equipment in the Consolidated Balance Sheets. Payments under the leases are treated as reductions of the obligations under capital leases, with a portion being recorded as interest expense under the effective interest method.

Depreciation is calculated using the straight-line method based on the following estimated useful lives:

Buildings and improvements	10-30 years
Capital leases - equipment	3-7 years
Furniture, fixtures and equipment	3-7 years

Intangibles, Net — Intangible assets and liabilities relating to Traditional Golf consist primarily of leasehold advantages (disadvantages), management contracts and membership base. A leasehold advantage (disadvantage) exists to the Company when it pays a contracted rent that is below (above) market rents at the date of the acquisition transaction. The value of a leasehold advantage (disadvantage) is calculated based on the differential between market and contracted rent, which is tax effected and discounted to present value based on an after-tax discount rate corresponding to each golf property and is amortized over the term of the underlying lease agreement. The management contract intangible represents the Company’s golf course management contracts for both leased and managed properties. The management contract intangible for leased and managed properties is valued

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utilizing a discounted cash flow methodology under the income approach and is amortized over the term of the underlying lease or management agreements, respectively. The membership base intangible represents the Company's relationship with its private country club members. The membership base intangible is valued using the multi-period excess earnings method under the income approach, and is amortized over the expected life of an active membership.

Amortization of leasehold intangible assets and liabilities is included within operating expenses and amortization of all other intangible assets is included within depreciation and amortization in the Consolidated Statements of Operations. Amortization of all intangible assets is calculated using the straight-line method based on the following estimated useful lives:

Trade name	30 years
Leasehold intangibles	1-26 years
Management contracts	1-26 years
Internally-developed software	5 years
Membership base	7 years

Membership Deposit Liabilities — Private country club members generally pay an advance initiation fee deposit upon their acceptance as a member to the respective country club. Initiation fee deposits are refundable 30 years after the date of acceptance as a member. The difference between the initiation fee deposit paid by the member and the present value of the refund obligation is deferred and recognized into Golf course operations revenue in the Consolidated Statements of Operations on a straight-line basis over the expected life of an active membership, which is estimated to be seven years. The present value of the refund obligation is recorded as a membership deposit liability in the Consolidated Balance Sheets and accretes over a 30-year nonrefundable term using the effective interest method. This accretion is recorded as interest expense in the Consolidated Statements of Operations.

Other Investment — The Company owns an approximately 22% economic interest in a limited liability company which owns preferred equity secured by a commercial real estate project. The Company accounts for this investment as an equity method investment. As of March 31, 2018 and December 31, 2017, the carrying value of this investment was \$21.5 million and \$21.1 million, respectively. The Company evaluates its equity method investment for other-than-temporary impairment whenever events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. The evaluation of recoverability is based on management's assessment of the financial condition and near term prospects of the commercial real estate project, the length of time and the extent to which the market value of the investment has been less than cost, availability and cost of financing, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the values estimated by management in its recoverability analyses may not be realized, and actual losses or impairment may be realized in the future.

Impairment of Real Estate and Finite-lived Intangible Assets — The Company periodically reviews the carrying amounts of its long-lived assets, including real estate and finite-lived intangible assets, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. The assessment of recoverability is based on management's estimates by comparing the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount of the asset is greater than the expected undiscounted cash flows to be generated by such asset, an impairment is recognized to the extent the carrying value of such asset exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate. Assets to be disposed of are carried at the lower of their financial statement carrying amount or fair value less costs to sell.

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Other Current Assets

The following table summarizes the Company's other current assets:

	March 31, 2018	December 31, 2017
Loans, held-for-sale, net (A)	\$ —	\$ 147
Prepaid expenses	4,906	3,081
Deposits	5,337	3,469
Inventory	5,302	4,722
Miscellaneous current assets, net	10,270	10,149
Other current assets	<u>\$ 25,815</u>	<u>\$ 21,568</u>

(A) During the three months ended March 31, 2018, the Company recorded an impairment of \$0.2 million on a corporate loan.

Other Assets

The following table summarizes the Company's other assets:

	March 31, 2018	December 31, 2017
Prepaid expenses	\$ 5	\$ 6
Deposits	2,126	2,213
Derivative assets	528	286
Miscellaneous assets, net	5,783	6,144
Other assets	<u>\$ 8,442</u>	<u>\$ 8,649</u>

Other Current Liabilities

The following table summarizes the Company's other current liabilities:

	March 31, 2018	December 31, 2017
Security deposits payable	\$ 7,894	\$ 6,602
Accrued rent	2,548	2,160
Due to affiliates	—	1,786
Dividends payable	930	930
Miscellaneous current liabilities	5,160	11,118
Other current liabilities	<u>\$ 16,532</u>	<u>\$ 22,596</u>

Other Liabilities

The following table summarizes the Company's other liabilities:

	March 31, 2018	December 31, 2017
Security deposits payable	\$ 302	\$ 66
Unfavorable leasehold interests	3,066	3,374
Accrued rent	1,057	1,057
Miscellaneous liabilities	354	349
Other liabilities	<u>\$ 4,779</u>	<u>\$ 4,846</u>

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Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09 *Revenue from Contracts with Customers (Topic 606)*. The standard’s core principle is that a company will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In doing so, companies will need to use more judgment and make more estimates than under today’s guidance. These may include identifying performance obligations in the contract, estimating the amount of variable consideration to include in the transaction price and allocating the transaction price to each separate performance obligation. In August 2015, the FASB issued ASU 2015-14 *Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date*, which defers the effective date by one year. The standard will be effective for annual and interim periods beginning after December 15, 2017; however, all entities are allowed to adopt the standard as early as the original effective date (annual periods beginning after December 15, 2016). Entities have the option of using either a full retrospective or a modified approach to adopt the guidance. In March 2016, the FASB issued ASU 2016-08 *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations* which clarifies how an entity should identify the unit of accounting for the principal versus agent evaluation and how to apply the control principle to certain types of arrangements. In April 2016, the FASB issued ASU 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, which clarifies when a promised good or service is separately identifiable. In May 2016, the FASB issued ASU 2016-12 *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients* which amends the new revenue recognition guidance on transition, collectibility, noncash consideration and the presentation of sales and other similar taxes. In December 2016, the FASB issued ASU 2016-20 *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers* which amends the new revenue recognition guidance on performance obligations and 12 additional technical corrections and improvements. The Company adopted the new guidance effective January 1, 2018 using the modified retrospective method. See Note 3 for additional information.

In January 2016, the FASB issued ASU 2016-01 *Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. The standard addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted the new guidance effective January 1, 2018 and it did not have a material impact on the Consolidated Financial Statements.

In February 2016, the FASB issued ASU 2016-02 *Leases (Topic 842)*. The standard requires lessees to recognize most leases on the balance sheet and addresses certain aspects of lessor accounting. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018 and early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements, with an option to use certain relief. The Company is evaluating potential impacts of adopting the standard. Upon initial qualitative evaluation, a key change upon adoption will be the balance sheet recognition of all leased assets and liabilities. The Company’s operating leases include ground leases, for certain of its golf properties and leased equipment which are not recognized on the balance sheet. The Company anticipates a right-of-use asset and a related lease liability will be recognized for these leases.

In June 2016, the FASB issued ASU 2016-13 *Financial Instruments - Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*. The standard changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. For available-for-sale debt securities, entities will be required to record allowances rather than reduce the carrying amount under the other-than-temporary impairment model. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 and early adoption is permitted for annual periods beginning after December 15, 2018. Entities will apply the standard’s provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. The Company is currently evaluating the new guidance to determine the impact it may have on its Consolidated Financial Statements.

In August 2016, the FASB issued ASU 2016-15 *Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments*. The standard provides specific guidance over eight identified cash flow issues in order to reduce diversity in practice over the presentation and classification of certain types of cash receipts and cash payments. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted. Entities should apply the standard using a retrospective transition method to each period presented. The Company

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adopted the new guidance effective January 1, 2018 and it did not have a material impact on the Consolidated Statements of Cash Flows.

In November 2016, the FASB issued ASU 2016-18 *Statement of Cash Flows (Topic 230), Restricted Cash*. The standard requires entities to show the changes in the total of cash, cash equivalents and restricted cash in the statement of cash flows and provide a reconciliation to the related line items in the balance sheet. The effective date of the standard will be for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017 and early adoption is permitted. Entities will be required to apply the guidance retrospectively when adopted and provide the relevant disclosures in ASC 250 in the first interim and annual periods in which the guidance is adopted. The Company adopted the new guidance effective January 1, 2018 and has included changes in restricted cash in the Consolidated Statements of Cash Flows for all periods presented.

In January 2017, the FASB issued ASU 2017-01 *Business Combinations (Topic 805), Clarifying the Definition of a Business*. The standard clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets of businesses. The effective date of the standard will be for interim and annual periods beginning after December 15, 2017 and early adoption is permitted. Entities will be required to apply the guidance on a prospective basis. The Company adopted the new guidance effective January 1, 2018 and it did not have a material impact on the Consolidated Financial Statements.

3. REVENUES

On January 1, 2018, the Company adopted the new accounting standard ASC 606, Revenue from Contracts with Customers, and all the related amendments (“new revenue standard”) for all contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying the new revenue standard as a decrease to the 2018 opening balance of accumulated deficit of \$4.8 million. The adjustment is due to the recognition of breakage on gift cards and gift certificates offered at the Company's Traditional Golf properties that are not expected to be redeemed based on historical redemption rates. The recognition of breakage on gift cards and gift certificates on an ongoing basis is expected to have an immaterial impact to the Company's net income (loss).

The majority of the Company's revenue continues to be recognized at the time of sale to customers at the Company's Traditional Golf properties, including green fees, cart rentals, and sales of food, beverages and merchandise. Under the new revenue standard, certain operating costs incurred at the Company's managed Traditional Golf properties and the reimbursements of those operating costs will now be recognized in Operating expenses and Golf course operations, respectively. The reimbursements do not include a profit margin and therefore this change will have no net impact to the Company's operating income (loss).

Per the modified retrospective method, comparative information has not been restated to conform to these changes and continues to be reported under the accounting standards in effect for those periods. In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on the Consolidated Balance Sheet and Statement of Operations was as follows:

Consolidated Balance Sheet

	March 31, 2018		
	As reported	Balances without Adoption of ASC 606	Effect of Change
Liabilities			
Other current liabilities	\$ 16,532	\$ 21,341	\$ (4,809)
Equity			
Accumulated Deficit	\$ (3,078,734)	\$ (3,083,543)	\$ 4,809

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Consolidated Statement of Operations

	Three Months Ended March 31, 2018		
	As reported	Balances without Adoption of ASC 606	Effect of Change
Revenues			
Golf course operations	\$ 53,554	\$ 48,897	\$ 4,657
Operating Costs			
Operating expenses	\$ 57,379	\$ 52,722	\$ 4,657

The Company's revenue is all generated within the Traditional Golf segment. The following table disaggregates revenue by category: public and private golf properties (owned and leased) and managed golf properties.

	Three Months Ended March 31, 2018			
	Public golf properties	Private golf properties	Managed golf properties	Total
Golf course operations	22,370	25,949	5,235	53,554
Sales of food and beverages	7,207	5,899	—	13,106
Total revenues	\$ 29,577	\$ 31,848	\$ 5,235	\$ 66,660

4. SEGMENT REPORTING

The Company currently has four reportable segments: (i) Traditional Golf properties, (ii) Entertainment Golf venues, (iii) Debt Investments, and (iv) corporate. The Company's Traditional Golf business is one of the largest owners and operators of golf properties in the United States. As of March 31, 2018, the Company owned, leased or managed 74 Traditional Golf properties across 12 states. Additionally, the Company opened its inaugural Entertainment Golf venue in Orlando, Florida on April 7, 2018 and expects to continue opening a chain of next-generation Entertainment Golf venues across the United States and internationally, which combine golf, competition, dining and fun.

The Debt Investment segment consists primarily of loans and securities which the Company has substantially monetized as part of its transformation to a leisure and entertainment company. The corporate segment consists primarily of interest income on short-term investments, general and administrative expenses, interest expense on the junior subordinated notes payable (Note 7), management fees pursuant to the Management Agreement prior to the Internalization effective January 1, 2018 (Note 12) and income tax expense (Note 14).

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Summary financial data on the Company's segments is given below, together with a reconciliation to the same data for the Company as a whole:

	Traditional Golf	Entertainment Golf	Debt Investments	Corporate	Total
Three Months Ended March 31, 2018					
Revenues					
Golf course operations	\$ 53,554	\$ —	\$ —	\$ —	\$ 53,554
Sales of food and beverages	13,106	—	—	—	13,106
Total revenues	66,660	—	—	—	66,660
Operating costs					
Operating expenses (A)	57,379	—	—	—	57,379
Cost of sales - food and beverages	4,040	—	—	—	4,040
General and administrative expense	4,153	1,102	6	2,074	7,335
General and administrative expense - acquisition and transaction expenses (B)	307	1,253	—	297	1,857
Depreciation and amortization	5,513	30	—	5	5,548
Pre-opening costs (C)	—	1,556	—	—	1,556
Impairment	1,326	—	147	—	1,473
Realized and unrealized loss on investments	(242)	—	—	—	(242)
Total operating costs	72,476	3,941	153	2,376	78,946
Operating loss	(5,816)	(3,941)	(153)	(2,376)	(12,286)
Other income (expenses)					
Interest and investment income	51	28	59	308	446
Interest expense, net (D)	(3,555)	—	—	(494)	(4,049)
Other (loss) income, net	(938)	—	532	—	(406)
Total other income (expenses)	(4,442)	28	591	(186)	(4,009)
Income tax expense	—	—	—	—	—
Net (loss) income	(10,258)	(3,913)	438	(2,562)	(16,295)
Preferred dividends	—	—	—	(1,395)	(1,395)
(Loss) income applicable to common stockholders	\$ (10,258)	\$ (3,913)	\$ 438	\$ (3,957)	\$ (17,690)

	Traditional Golf	Entertainment Golf	Debt Investments (E)	Corporate	Total
March 31, 2018					
Total assets	320,491	81,575	24,306	87,604	513,976
Total liabilities	290,553	9,160	79	55,703	355,495
Preferred stock	—	—	—	61,583	61,583
Equity attributable to common stockholders	\$ 29,938	\$ 72,415	\$ 24,227	\$ (29,682)	\$ 96,898

Additions to property and equipment (including capital leases) during the three months ended March 31, 2018	\$ 4,040	\$ 9,498	\$ —	\$ —	\$ 13,538
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Summary segment financial data (continued).

	Traditional Golf	Entertainment Golf	Debt Investments	Corporate	Total
Three Months Ended March 31, 2017					
Revenues					
Golf course operations	\$ 46,296	\$ —	\$ —	\$ —	\$ 46,296
Sales of food and beverages	12,845	—	—	—	12,845
Total revenues	59,141	—	—	—	59,141
Operating costs					
Operating expenses (A)	50,509	—	—	—	50,509
Cost of sales - food and beverages	4,032	—	—	—	4,032
General and administrative expense	4,222	15	1	1,595	5,833
General and administrative expense - acquisition and transaction expenses (B)	276	1,261	—	117	1,654
Management fee to affiliate	—	—	—	2,677	2,677
Depreciation and amortization	5,793	—	—	—	5,793
Realized and unrealized loss on investments	120	—	3,269	—	3,389
Total operating costs	64,952	1,276	3,270	4,389	73,887
Operating loss	(5,811)	(1,276)	(3,270)	(4,389)	(14,746)
Other income (expenses)					
Interest and investment income	39	—	7,802	47	7,888
Interest expense, net (D)	(3,817)	—	(1,206)	(411)	(5,434)
Other (loss) income, net	(624)	—	501	—	(123)
Total other income (expenses)	(4,402)	—	7,097	(364)	2,331
Income tax expense	—	—	—	539	539
Net (loss) income	(10,213)	(1,276)	3,827	(5,292)	(12,954)
Preferred dividends	—	—	—	(1,395)	(1,395)
(Loss) income applicable to common stockholders	\$ (10,213)	\$ (1,276)	\$ 3,827	\$ (6,687)	\$ (14,349)

- (A) Operating expenses includes rental expenses recorded under operating leases for carts and equipment in the amount of \$0.6 million and \$0.8 million for the three months ended March 31, 2018 and 2017, respectively. Operating expenses also includes amortization of favorable and unfavorable lease intangibles in the amount of \$1.0 million and \$1.0 million for the three months ended March 31, 2018 and 2017, respectively.
- (B) Acquisition and transaction expenses include costs related to completed and potential acquisitions and transactions which may include advisory, legal, accounting, valuation and other professional or consulting fees.
- (C) Pre-opening costs are expensed as incurred and consist primarily of site-related marketing expenses, pre-opening rent, employee payroll, travel and related expenses, training costs, food, beverage and other restaurant operating expenses incurred prior to opening an Entertainment Golf venue.
- (D) Interest expense, net includes the accretion of membership deposit liabilities in the amount of \$1.7 million and \$1.6 million for the three months ended March 31, 2018 and 2017, respectively. Interest expense is net of \$0.4 million related to capitalized interest for Entertainment Golf for the three months ended March 31, 2018.
- (E) Total assets in the Debt Investments segment includes an equity method investment in the amount of \$21.5 million as of March 31, 2018 recorded in other investments on the Consolidated Balance Sheets. See Note 2 for additional information.

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5. PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

The following table summarizes the Company's property and equipment:

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Land	\$ 5,105	\$ —	\$ 5,105	\$ 88,251	\$ —	\$ 88,251
Buildings and improvements	51,164	(24,382)	26,782	154,769	(52,636)	102,133
Furniture, fixtures and equipment	21,053	(16,094)	4,959	33,109	(23,451)	9,658
Capital leases - equipment	26,027	(9,719)	16,308	24,949	(8,649)	16,300
Construction in progress	33,696	—	33,696	24,916	—	24,916
Total Property and Equipment	<u>\$ 137,045</u>	<u>\$ (50,195)</u>	<u>\$ 86,850</u>	<u>\$ 325,994</u>	<u>\$ (84,736)</u>	<u>\$ 241,258</u>

In February 2018, the lease on a golf property in Oklahoma was terminated and the Company exited the property.

On March 7, 2018, the Company announced it will actively pursue the sale of 26 owned Traditional Golf properties in order to generate capital for reinvestment in the Entertainment Golf business. The assets and associated liabilities are reported on the Consolidated Balance Sheets as "Real estate assets, held-for-sale" and "Real estate liabilities, held-for-sale," respectively. The real estate assets, held-for-sale are reported at a carrying value of \$164.0 million and include \$83.8 million of land, \$74.3 million of buildings and improvements, \$4.8 million of furniture, fixtures and equipment, and \$1.1 million of other related assets. The real estate liabilities, held-for-sale are reported at a carrying value of \$13.5 million and include property liabilities to be assumed, primarily prepaid membership dues.

The Company has assessed the real estate assets and determined that the carrying value of one property exceeded the fair value less anticipated costs to sell. As a result, the Company recognized an impairment loss totaling approximately \$1.3 million for the three months ended March 31, 2018. The fair value measurement was based on the pricing in a letter of intent and internal valuation models. The significant inputs used to value these real estate investments fall within Level 3 for fair value reporting.

6. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company's intangible assets:

	March 31, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (99)	\$ 601	\$ 700	\$ (93)	\$ 607
Leasehold intangibles (A)	48,107	(17,756)	30,351	48,107	(16,716)	31,391
Management contracts	35,111	(14,210)	20,901	35,111	(13,468)	21,643
Internally-developed software	800	(680)	120	800	(640)	160
Membership base	5,236	(3,179)	2,057	5,236	(2,992)	2,244
Nonamortizable liquor licenses	866	—	866	1,231	—	1,231
Total Intangibles	<u>\$ 90,820</u>	<u>\$ (35,924)</u>	<u>\$ 54,896</u>	<u>\$ 91,185</u>	<u>\$ (33,909)</u>	<u>\$ 57,276</u>

(A) The amortization expense for leasehold intangibles is reported in operating expenses in the Consolidated Statements of Operations.

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7. DEBT OBLIGATIONS

The following table presents certain information regarding the Company's debt obligations at March 31, 2018:

Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Coupon (A)	Weighted Average Funding Cost (B)	Weighted Average Life (Years)	Face Amount of Floating Rate Debt
<u>Credit Facilities and Capital Leases</u>								
Traditional Golf term loan (C)(D)	June 2016	102,000	100,255	Jul 2019	LIBOR+4.70%	7.92%	1.3	102,000
Vineyard II	Dec 1993	200	200	Dec 2043	2.20%	2.20%	25.7	200
Capital leases (Equipment)	Jun 2014 - Mar 2018	16,593	16,593	Sep 2018 - Oct 2023	3.00% to 16.16%	6.61%	3.5	—
		118,793	117,048			7.72%	1.6	102,200
Less current portion of obligations under capital leases		4,892	4,892					
Credit facilities and obligations under capital leases - noncurrent		113,901	112,156					
<u>Corporate</u>								
Junior subordinated notes payable (E)	Mar 2006	51,004	51,206	Apr 2035	LIBOR+2.25%	3.99%	17.1	51,004
Total debt obligations		\$ 169,797	\$ 168,254			6.59%	6.3	\$ 153,204

(A) Weighted average, including floating and fixed rate classes.

(B) Including the effect of deferred financing costs.

(C) The Traditional Golf term loan is collateralized by 22 golf properties. The carrying amount of the Traditional Golf term loan is reported net of amortized deferred financing costs of \$1.7 million as of March 31, 2018.

(D) Interest rate based on 1 month LIBOR plus 4.70% with a LIBOR floor of 1.80%. At the time of closing, the Company purchased a co-terminus LIBOR interest rate cap of 1.80%.

(E) Interest rate based on 3 month LIBOR plus 2.25%.

Traditional Golf leases certain golf carts and other equipment under capital lease agreements. The agreements typically provide for minimum rentals plus executory costs. Lease terms range from 36 to 66 months. Certain leases include bargain purchase options at lease expiration.

The future minimum lease payments required under the capital leases and the present value of the net minimum lease payments as of March 31, 2018 are as follows:

April 1, 2018 - December 31, 2018	\$	4,384
2019		5,709
2020		4,431
2021		2,864
2022		1,091
2023		190
Total minimum lease payments		18,669
Less: imputed interest		2,076
Present value of net minimum lease payments	\$	16,593

The Company's credit facilities contain various customary loan covenants, including certain coverage ratios. The Company was in compliance with all of these covenants as of March 31, 2018.

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(dollars in tables in thousands, except share data)

8. REAL ESTATE SECURITIES

The following is a summary of the Company's real estate securities at March 31, 2018, which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

Asset Type	March 31, 2018												
	Outstanding Face Amount	Amortized Cost Basis			Gross Unrealized		Carrying Value (A)	Number of Securities	Weighted Average				
		Before Impairment	Other-Than-Temporary Impairment	After Impairment	Gains	Losses			Rating (B)	Coupon	Yield	Life (Years) (C)	Principal Subordination (D)
ABS - Non-Agency RMBS	\$ 4,000	\$ 2,480	\$ (1,521)	\$ 959	\$ 1,403	\$ —	\$ 2,362	1	CCC	2.26%	22.81%	7.5	33.9%
Total Securities, Available for Sale (E)	\$ 4,000	\$ 2,480	\$ (1,521)	\$ 959	\$ 1,403	\$ —	\$ 2,362	1					

(A) See Note 10 regarding the estimation of fair value, which is equal to carrying value for all securities.

(B) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the lowest rating is used. Ratings provided were determined by third-party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.

(C) The weighted average life is based on the timing of expected cash flows on the assets.

(D) Percentage of the outstanding face amount of securities and residual interests that is subordinate to the Company's investments.

(E) The total outstanding face amount was \$4.0 million for floating rate securities. The collateral securing the ABS - Non-Agency RMBS is located in various geographical regions in the US. The Company does not have significant investments in any geographic region, thus a downturn in market conditions would not have a material negative impact on the Company.

The Company had no securities in an unrealized loss position as of March 31, 2018. The Company has no activity related to credit losses on debt securities for the three months ended March 31, 2018.

9. DERIVATIVES

The Company's derivative instrument is an interest rate cap with a fair value of \$0.5 million and \$0.3 million as of March 31, 2018 and December 31, 2017, respectively, and is recorded within other assets on the Consolidated Balance Sheets. The Company had no derivative liabilities as of both March 31, 2018 and December 31, 2017.

The following table summarizes (gains) losses recorded in relation to derivatives:

	Income Statement Location	Three Months Ended March 31,	
		2018	2017
Non-hedge derivatives			
Unrealized (gain) loss on interest rate derivatives	Realized and unrealized (gain) loss on investments	\$ (242)	\$
Unrealized loss recognized related to TBAs	Realized and unrealized (gain) loss on investments	—	2,
Realized (gain) on settlement of TBAs	Realized and unrealized (gain) loss on investments	—	(2,

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Summary Table

The following table summarizes the carrying values and estimated fair values of the Company's financial instruments at March 31, 2018:

	Carrying Value	Estimated Fair Value	Fair Value Method (A)
Assets			
Real estate securities, available-for-sale	\$ 2,362	\$ 2,362	Pricing models - Level 3
Cash and cash equivalents	137,028	137,028	
Restricted cash, current and noncurrent	3,983	3,983	
Non-hedge derivative assets (B)	528	528	Counterparty quotations - Level 2
Liabilities			
Credit facilities - Traditional Golf term loan	100,255	103,461	Pricing models - Level 3
Junior subordinated notes payable	51,206	29,030	Pricing models - Level 3

(A) Pricing models are used for (i) real estate securities and loans that are not traded in an active market, and, therefore, have little or no price transparency, and for which significant unobservable inputs must be used in estimating fair value, or (ii) debt obligations which are private and untraded.

(B) Represents an interest rate cap (Note 9).

Fair Value Measurements

Valuation Hierarchy

The fair value of financial instruments is categorized based on the priority of the inputs to the valuation technique and categorized into a three-level fair value hierarchy. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The Company follows this hierarchy for its financial instruments measured at fair value.

Level 1 - Quoted prices in active markets for identical instruments.

Level 2 - Valuations based principally on observable market parameters, including

- quoted prices for similar assets or liabilities in active markets,
- inputs other than quoted prices that are observable for the asset or liability (such as interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads), and
- market corroborated inputs (derived principally from or corroborated by observable market data).

Level 3 - Valuations determined using unobservable inputs that are supported by little or no market activity, and that are significant to the overall fair value measurement.

The Company's real estate securities and loans, and debt obligations are currently not traded in active markets and therefore have little or no price transparency. As a result, the Company has estimated the fair value of these illiquid instruments based on internal pricing models subject to the Company's controls described below.

The Company has various processes and controls in place to ensure that fair value measurements are reasonably estimated. With respect to broker and pricing service quotations, and in order to ensure these quotes represent a reasonable estimate of fair value, the Company's quarterly procedures include a comparison of such quotations to quotations from different sources, outputs generated from its internal pricing models and transactions completed, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on the Company's internal pricing models, the Company's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third-party market parameters and models, where available, for reasonableness. The Company believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodology used to determine fair value and such changes could result in a significant increase or decrease in the fair value. For the Company's investments in real

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estate securities and loans categorized within Level 3 of the fair value hierarchy, the significant unobservable inputs include the discount rates, assumptions relating to prepayments, default rates and loss severities.

Significant Unobservable Inputs

The following table provides quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of March 31, 2018:

Asset Type	Amortized Cost Basis	Fair Value	Weighted Average Significant Input			
			Discount Rate	Prepayment Speed	Cumulative Default Rate	Loss Severity
ABS - Non-Agency RMBS	\$ 959	\$ 2,362	12.0%	5.4%	4.1%	6.1%
Total	\$ 959	\$ 2,362				

All of the inputs used have some degree of market observability, based on the Company's knowledge of the market, relationships with market participants, and use of common market data sources. Collateral prepayment, default and loss severity projections are in the form of "curves" or "vectors" that vary for each monthly collateral cash flow projection. Methods used to develop these projections vary by asset class but conform to industry conventions. The Company uses assumptions that generate its best estimate of future cash flows of each respective security.

Real estate securities measured at fair value on a recurring basis using Level 3 inputs changed during the three months ended March 31, 2018 as follows:

	ABS - Non-Agency RMBS	
Balance at December 31, 2017	\$	2,294
Total gains (losses) (A)		
Included in other comprehensive income (loss)		33
Amortization included in interest income		54
Purchases, sales and repayments (A)		
Proceeds		(19)
Balance at March 31, 2018	\$	2,362

(A) None of the gains (losses) recorded in earnings during the period are attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates. There were no purchases or sales during the three months ended March 31, 2018. There were no transfers into or out of Level 3 during the three months ended March 31, 2018.

Non-Recurring Fair Value Measurements - Loans

Loans held-for-sale are carried at the lower of amortized cost or fair value and are therefore recorded at fair value on a non-recurring basis. These loans were written down to fair value at the time of the impairment, based on internal pricing models. All the loans were within Level 3 of the fair value hierarchy. The most significant inputs used in the valuations are the amount and timing of expected future cash flows, market yields and the estimated collateral value of such loan investments.

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Liabilities for Which Fair Value is Only Disclosed

The following table summarizes the level of the fair value hierarchy, valuation techniques and inputs used for estimating each class of liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed:

Type of Liabilities Not Measured At Fair Value for Which Fair Value Is Disclosed	Fair Value Hierarchy	Valuation Techniques and Significant Inputs
Credit facilities	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: <ul style="list-style-type: none"> ● Amount and timing of expected future cash flows ● Interest rates ● Market yields
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: <ul style="list-style-type: none"> ● Amount and timing of expected future cash flows ● Interest rates ● Market yields and the credit spread of the Company

11. EQUITY AND EARNINGS PER SHARE

A. Equity

The following is a summary of the changes in the Company's outstanding options for the three months ended March 31, 2018:

	Number of Options	Weighted Average Strike Price	Weighted Average Life Remaining (in years)
Balance at December 31, 2017	5,010,576	\$ 2.55	
Balance at March 31, 2018	5,010,576	\$ 2.55	5.34
Exercisable at March 31, 2018	3,858,081	\$ 2.58	5.36

As of March 31, 2018, the Company's outstanding options were summarized as follows:

	Issued in 2011 and thereafter
Held by the former Manager	3,857,748
Issued to the former Manager and subsequently transferred to certain of the Manager's employees (A)	1,152,495
Issued to the independent directors	333
Total	5,010,576
Weighted average strike price	\$ 2.55

(A) The Company and the former Manager agreed that options held by certain employees formerly employed by the Manager will not terminate or be forfeited as a result of the Termination and Cooperation Agreement, and the vesting of such options will relate to the relevant holder's employment with the Company and its affiliates following January 1, 2018.

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The valuation of the employee options has been determined using the Black-Scholes option valuation model. The Black-Scholes option valuation model uses assumptions of expected volatility, expected dividend yield of the Company's stock, expected term of the awards and the risk-free interest rate. As of January 1, 2018, the fair value of the options was \$4.3 million using the following assumptions:

Expected Volatility	39.73%
Expected Dividend Yield	0.00%
Expected Remaining Term	3.0 - 6.6 years
Risk-Free Rate	2.16 - 2.29%

The options granted to the Company's employees fully vest and are exercisable one year prior to the option expiration date, beginning March 2020 through January 2024. Stock-based compensation expense is recognized on a straight-line basis through the vesting date of the options. Stock-based compensation expense related to the employee options was \$0.3 million during the three months ended March 31, 2018 and was recorded in general and administrative expense on the Consolidated Statements of Operations. The unrecognized stock-based compensation expense related to the unvested options was \$4.0 million as of March 31, 2018 and will be expensed over a weighted average of 4.4 years.

On March 6, 2018, the Company declared dividends of \$0.609375, \$0.503125 and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively, for the period beginning February 1, 2018 and ending April 30, 2018. Dividends totaling \$1.4 million were paid on April 30, 2018.

B. Earnings Per Share

The Company is required to present both basic and diluted earnings per share ("EPS"). The following table shows the amounts used in computing basic and diluted EPS:

	Three Months Ended March 31,	
	2018	2017
Numerator for basic and diluted earnings per share:		
Loss from continuing operations after preferred dividends and noncontrolling interests	\$ (17,690)	\$ (14,349)
Loss Applicable to Common Stockholders	<u>\$ (17,690)</u>	<u>\$ (14,349)</u>
Denominator:		
Denominator for basic earnings per share - weighted average shares	66,977,104	66,841,977
Effect of dilutive securities		
Options	—	—
Denominator for diluted earnings per share - adjusted weighted average shares	<u>66,977,104</u>	<u>66,841,977</u>
Basic earnings per share:		
Loss from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	<u>\$ (0.26)</u>	<u>\$ (0.21)</u>
Loss Applicable to Common Stock, per share	<u>\$ (0.26)</u>	<u>\$ (0.21)</u>
Diluted earnings per share:		
Loss from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	<u>\$ (0.26)</u>	<u>\$ (0.21)</u>
Loss Applicable to Common Stock, per share	<u>\$ (0.26)</u>	<u>\$ (0.21)</u>

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Basic EPS is calculated by dividing (loss) income applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing (loss) income applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of common stock equivalents during each period. The Company's common stock equivalents are its outstanding stock options. During the three months ended March 31, 2018 and 2017, the Company had zero and 151,234 antidilutive options, respectively. During the three months ended March 31, 2018 and 2017, based on the treasury stock method, the Company had 2,509,765 and 1,941,409 potentially dilutive common stock equivalents, respectively, which were excluded due to the Company's loss position. Income (loss) applicable to common stockholders is equal to net income (loss) less preferred dividends and net income (loss) attributable to noncontrolling interest.

12. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Agreements with the Former Manager

On December 21, 2017, the Company entered into definitive agreements with the former Manager to internalize the Company's management (the "Internalization"). In connection with the termination of the existing Management Agreement, the Company made a payment of \$10.7 million to the former Manager in December 2017. The Internalization became effective on January 1, 2018.

On December 21, 2017, the Company entered into a Transition Services Agreement, effective as of January 1, 2018, with the former Manager. In order to facilitate the transition of the Company's management of its operations and provide the Company sufficient time to develop such services in-house or to hire other third-party service providers for such services, under the Transition Services Agreement, the former Manager continues to provide to the Company certain services ("Transition Services"). The Transition Services primarily include information technology, legal, regulatory compliance, tax and accounting services. The Transition Services are provided for a fee intended to be equal to the former Manager's cost of providing the Transition Services, including the allocated cost of, among other things, overhead, employee wages and compensation and out-of-pocket expenses, and will be invoiced on a monthly basis. The Company incurred \$0.2 million in costs for Transition Services during the three months ended March 31, 2018, and these costs are reported in general and administrative expense on the Consolidated Statements of Operations.

	Amounts incurred under the Management Agreement	
	Three Months Ended March 31,	
	2018	2017
Management fees	\$ —	\$ 2,552
Expense reimbursement to the Manager	—	125
Incentive compensation	—	—
Total Management fee to affiliate	\$ —	\$ 2,677

At March 31, 2018, Fortress, through its affiliates, and principals of Fortress, owned 6.8 million shares of the Company's common stock and Fortress, through its affiliates, had options relating to an additional 3.9 million shares of the Company's common stock (Note 11).

At December 31, 2017, due to affiliates was comprised of \$1.8 million in management fees and expense reimbursements payable to the former Manager.

Other Affiliated Entities

A member of the Board of Directors owned or leased aircraft that the Company chartered from a third-party aircraft operator for business purposes in the course of operations. The Company paid the aircraft operator market rates for the charters.

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13. COMMITMENTS AND CONTINGENCIES

Litigation - The Company exited a leased property and accrued related lease exit costs of approximately \$0.8 million in December 2016. The Company is in a legal dispute related to this golf property. The Company has not accrued additional losses in connection with this legal dispute because management does not believe there is a probable and reasonably estimable loss at this time. However, the ultimate outcome of the proceedings may have a material adverse effect on our business, financial position or results of operations.

The Company is and may become, from time to time, involved in legal actions in the ordinary course of business, including governmental and administrative investigations, inquiries and proceedings concerning employment, labor, environmental and other claims. Although management is unable to predict with certainty the eventual outcome of any legal action, management believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at March 31, 2018, will not materially affect the Company's consolidated results of operations, financial position or cash flow. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

Commitments - In 2016, the Company entered into a ground lease in Orlando, Florida. During June 2017, the Company committed to the lease as there were no remaining material contingencies under the terms of the lease. The initial lease term is 20 years and includes three 5-year renewal options.

In March 2017, the Company entered into a ground lease in Richmond, Virginia. During December 2017, the Company committed to the lease as there were no remaining material contingencies under the terms of the lease. The initial lease term is 20 years and includes three 5-year renewal options.

Contingencies - In September 2017, Hurricane Irma caused significant damage to a Traditional Golf property in Florida, including damage to trees, bunkers and other landscaping. The three golf courses at this property were closed immediately and reopened prior to December 31, 2017. The property is insured for property damage and business interruption losses related to such events, subject to deductibles and policy limits. The Company has incurred \$5.2 million in property damage costs related to Hurricane Irma of which \$1.0 million was incurred in 2018. The Company expects to incur an additional \$1.0 to \$1.2 million in property damage costs in 2018. The Company was reimbursed \$2.0 million by the insurer in 2017 and reached a settlement with the insurer for an additional payment of \$3.0 million, received in April 2018 (see Note 15 for additional information). Property damage costs and insurance reimbursement are recorded in operating expenses on the Consolidated Statements of Operations.

14. INCOME TAXES

The Company's income tax provision (benefit) for interim periods is determined using an estimate of the Company's annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period.

The Company's income tax provision for the three months ended March 31, 2018 and 2017 was zero and \$0.5 million, respectively.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible.

The Company recorded a valuation allowance against its deferred tax assets as of March 31, 2018 as management does not believe that it is more likely than not that the deferred tax assets will be realized.

On December 22, 2017, the Tax Cuts and Jobs Act (the "Tax Act") was signed into law. The Tax Act significantly revised the U.S. corporate income tax regime by, among other things, lowering corporate income tax rates and eliminating the alternative minimum tax ("AMT") for corporate taxpayers. The Company accounted for the effects of the Tax Act for the year ended December 31, 2017 which included the re-measurement of deferred tax assets and liabilities due to the reduction in the corporate income tax rate and booked a non-recurring income tax receivable in the amount of \$0.6 million due to refundable AMT credits. Due to the full valuation allowance, the re-measurement of deferred tax assets and liabilities had no impact on the income tax provision.

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15. SUBSEQUENT EVENTS

These Consolidated Financial Statements include a discussion of material events, if any, that have occurred subsequent to March 31, 2018 through the issuance of these Consolidated Financial Statements.

The Company opened its first Entertainment Golf venue in Orlando, Florida on April 7, 2018.

On April 10, 2018, the former Manager granted 1.2 million options it holds in the Company to certain of the Company's employees, which were valued at \$3.6 million as of the grant date. These options fully vest and are exercisable one year prior to the option expiration date, beginning March 2020 through January 2024.

As of April 30, 2018, the Company received the \$3.0 million settlement reached with the insurer related to the property damage caused by Hurricane Irma (see Note 13 for additional information).

On May 2, 2018, the Company declared dividends of \$0.609375, \$0.503125 and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively, for the period beginning May 1, 2018 and ending July 31, 2018. Dividends totaling \$1.4 million will be paid on July 31, 2018 to stockholders of record on July 2, 2018.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of Drive Shack Inc. (and with its subsidiaries, "Drive Shack Inc." or the "Company"). The following should be read in conjunction with the unaudited Consolidated Financial Statements and notes thereto included herein, and with Part II, Item 1A. "Risk Factors."

GENERAL

The Company is a leading owner and operator of golf-related leisure and entertainment businesses. On December 28, 2016, the Company changed its name from Newcastle Investment Corp. to Drive Shack Inc. in connection with its transformation to a leisure and entertainment company. The Company was formed in 2002 and its common stock is traded on the NYSE under the symbol "DS." On December 21, 2017, the Company announced that it had entered into definitive agreements with FIG LLC (the "Manager"), an affiliate of Fortress Investment Group LLC ("Fortress") to internalize the Company's management (the "Internalization") effective January 1, 2018. The Company and the Manager agreed to terminate the existing Management Agreement and arrange for the Manager to continue to provide certain services for a transition period. For further information relating to our business, see "Business Overview" below.

We conduct our business through the following segments: (i) Traditional Golf properties, (ii) Entertainment Golf venues, (iii) Debt Investments and (iv) corporate. Revenues attributable to each segment are disclosed below (in thousands):

	Traditional Golf	Entertainment Golf	Debt Investments	Corporate	Total
Three Months Ended March 31, 2018					
Revenues and interest and investment income	\$ 66,711	\$ 28	\$ 59	\$ 308	\$ 67,106
Three Months Ended March 31, 2017					
Revenues and interest and investment income	\$ 59,180	\$ —	\$ 7,802	\$ 47	\$ 67,029

Business Overview

Traditional Golf | American Golf

American Golf (as defined below) is one of the largest owners and operators of golf properties in the United States. As of March 31, 2018, we owned, leased or managed 74 properties across 12 states. American Golf and its dedicated employees are focused on delivering lasting experiences for our customers, including our more than 50,000 members, who played over 800,000 rounds at our properties during the three months ended March 31, 2018.

American Golf was acquired by the Company in December 2013, when the Company restructured an existing mezzanine debt investment related to NGP Realty Sub, L.P. and American Golf Corporation (together, "American Golf"). As part of the restructuring, the Company acquired the equity of American Golf's indirect parent, AGC Mezzanine Pledge LLC.

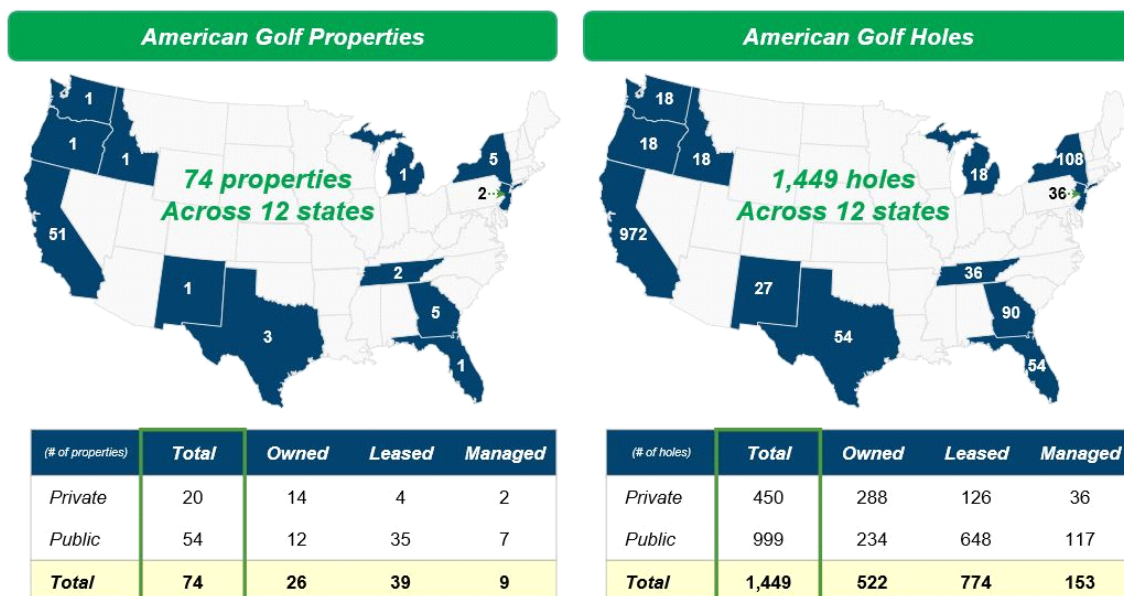
Our operations are organized into three principal categories: (1) Public Properties, (2) Private Properties and (3) Managed Properties.

Public Properties. Our 47 public properties generate revenues principally through daily green fees, golf cart rentals and food, beverage and merchandise sales. Amenities at these properties generally include practice facilities and pro shops with food and beverage facilities. In some cases, our public properties have small clubhouses with banquet facilities. In addition, The Players Club is a monthly membership program offered at most of our public properties, with membership benefits ranging from daily range access to ability to participate in golf clinics, in return for a monthly membership fee.

Private Properties. Our 18 private properties are open to members only and generate revenues principally through initiation fees, membership dues, guest fees, and food, beverage and merchandise sales. Amenities at these properties typically include practice facilities, full service clubhouses with a pro shop, locker room facilities and multiple food and beverage outlets, including grills, restaurants and banquet facilities.

Managed Properties. Our 9 managed properties are properties that American Golf manages pursuant to a management agreement with the owner of each property. We recognize revenue from these properties in amounts equal to the respective management fees and the reimbursements of certain operating costs.

The following summarizes the American Golf properties and holes as of March 31, 2018:



Entertainment Golf | Drive Shack

Drive Shack is an entertainment company that combines golf, competition, dining and fun. We opened our inaugural venue in Orlando, Florida on April 7, 2018. Drive Shack expects to open a chain of next-generation entertainment golf venues across the United States and internationally, with each venue featuring multiple stories of hitting suites where friends, family, co-workers or complete strangers may compete in a technologically-enhanced golf games. Consumers who are seeking a good time, but not looking to participate in the game, would be able to spectate from one of Drive Shack's restaurant or lounge areas.

Debt Investments | Loans & Securities

The Company historically invested in loans and securities. The Company has substantially monetized its remaining loans and securities as part of its transformation to a leisure and entertainment company.

MARKET CONSIDERATIONS

Our ability to execute our business strategy, particularly the development of our Entertainment Golf business, depends to a degree on our ability to monetize our remaining Debt Investments, optimize our Traditional Golf business, including sales of owned properties, and obtain additional capital. We have substantially monetized the remaining loans and securities in our Debt Investments segment. We have not accessed the capital markets since 2014, and rising interest rates or stock market volatility could impair our ability to raise equity capital on attractive terms.

Our ability to generate income is dependent on, among other factors, our ability to raise capital and finance properties on favorable terms, deploy capital on a timely basis at attractive returns, and exit properties at favorable yields. Market conditions outside of our control, such as interest rates, inflation, consumer discretionary spending and stock market volatility affect these objectives in a variety of ways.

Traditional Golf Business

With respect to our Traditional Golf business, trends in consumer discretionary spending, as well as climate and weather patterns, have a significant impact on the markets in which we operate. Traditional Golf is subject to seasonal fluctuations caused by significant reductions in golf activities due to shorter days and colder temperatures in the first and fourth quarters of each

year. Consequently, a significantly larger portion of our revenue from our Traditional Golf operations is earned in the second and third quarters of our fiscal year. In addition, severe weather patterns can also negatively impact our results of operations.

While consumer spending in the Traditional Golf industry has not grown in recent years, we believe improving economic conditions and improvements in local housing markets have helped and will continue to help drive membership growth and increase the number of golf rounds played. In addition, we believe growth in related industries, including leisure, fitness and entertainment, may positively impact our Traditional Golf business.

Entertainment Golf Business

We are in the construction and development phase, as well as in the process of exploring sites for Entertainment Golf venues and opened our inaugural venue in Orlando, Florida on April 7, 2018. There is competition within the bid process, and land development and construction are subject to obtaining the necessary regulatory approvals. Delays in these processes could impact our business. In addition, similar to our Traditional Golf business, trends in consumer spending, as well as climate and weather patterns, could have a significant impact on the markets in which we will successfully operate.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Our estimates are based on information available to management at the time of preparation of the Consolidated Financial Statements, including the result of historical analysis, our understanding and experience of the Company's operations, our knowledge of the industry and market-participant data available to us.

Actual results have historically been in line with management's estimates and judgments used in applying each of the accounting policies described below and management periodically re-evaluates accounting estimates and assumptions. Actual results could differ from these estimates and materially impact our Consolidated Financial Statements. However, the Company does not expect our assessments and assumptions below to materially change in the future.

The following is a summary of our accounting policies that are most affected by judgments, estimates and assumptions.

Impairment of Property and Equipment

Real estate and long-lived assets are tested for potential impairment when changes in circumstances indicate the carrying amount of the assets, or other appropriate grouping of assets, may not be fully recoverable. Indicators of impairment include material adverse changes in the projected revenues and expenses, significant underperformance relative to historical or projected future operating results, and significant negative industry or economic trends. An impairment is determined to have occurred if the future net undiscounted cash flows expected to be generated is less than the carrying value of an asset. The impairment is measured as the difference between the carrying value and the fair value. Significant judgment is required both in determining impairment and in estimating the fair value. We may use assumptions and estimates derived from a review of our operating results, business projections, expected growth rates, discount rates, and tax rates. We also make certain assumptions about future economic conditions, interest rates, and other market data. Many of the factors used in these assumptions and estimates are outside the control of management, and can change in future periods.

Impairment of Intangible Assets

We assess the potential impairment of our intangible assets with indefinite lives on an annual basis, or if an event occurs or circumstances change between annual tests that indicate that it is more likely than not that the asset is impaired. We perform our impairment test by comparing the fair value of the intangible asset with its carrying amount. If the carrying amount exceeds its fair value, an impairment loss will be recognized in an amount equal to that excess.

We assess the potential impairment of our definite-lived intangible assets when changes in circumstances indicate the carrying amount of the assets, or other appropriate grouping of assets, may not be fully recoverable. The assessment of recoverability is based on comparing management's estimates of the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. Factors leading to impairment include significant under-performance relative to historical or projected

results, significant changes in the manner of use of the acquired assets or the strategy for our overall business and significant negative industry or economic trends.

Membership Deposit Liabilities

In our Traditional Golf business, private country club members generally pay an advance initiation fee deposit upon their acceptance as a member to the respective country club. Initiation fee deposits are refundable 30 years after the date of acceptance as a member. The difference between the initiation fee deposit paid by the member and the present value of the refund obligation is deferred and recognized into revenue in the Consolidated Statements of Operations on a straight-line basis over the expected life of an active membership, which is estimated to be seven years. The present value of the refund obligation is recorded as a membership deposit liability in the Consolidated Balance Sheets and accretes over a 30-year nonrefundable term using the effective interest method. This accretion is recorded as interest expense, net in the Consolidated Statements of Operations. The determination of the estimated average expected life of an active membership is based on company-specific historical data and involves judgment and estimation.

Valuation of Securities

Fair value of securities may be based upon broker quotations, counterparty quotations or pricing services quotations, which provide valuation estimates based upon reasonable market order indications or a good faith estimate thereof and are subject to significant variability based on market conditions, such as interest rates, credit spreads and market liquidity.

Our non-Agency RMBS security is categorized as a Level 3 asset. If we were forced to sell this asset in a short period to meet liquidity needs, the price we receive could be substantially less than the recorded fair value. Our estimation of the fair value of securities valued using internal models involves significant judgment. The inputs to our models include discount rates, prepayment speeds, default rates and severity assumptions.

See Note 10 to our Consolidated Financial Statements in Part I, Item 1. "Financial Statements" for information regarding the fair value of our investments, and respective estimation methodologies as of March 31, 2018.

Impairment of Securities and Other Investments

Temporary declines in value generally result from changes in market factors, such as market interest rates and credit spreads, or from certain macroeconomic events, including market disruptions and supply changes, which do not directly impact our ability to collect amounts contractually due. We continually evaluate the credit status of each of our securities and the collateral supporting our securities. This evaluation includes a review of the credit of the issuer of the security (if applicable), the credit rating of the security, the key terms of the security (including credit support), debt service coverage and loan to value ratios, the performance of the pool of underlying loans and the estimated value of the collateral supporting such loans, including the effect of local, industry and broader economic trends and factors. These factors include loan default expectations and loss severities, which are analyzed in connection with a particular security's credit support, as well as prepayment rates. These factors are also analyzed in relation to the amount of the unrealized loss and the period elapsed since it was incurred. The result of this evaluation is considered when determining management's estimate of cash flows, particularly with respect to developing the necessary inputs and assumptions. Each security is impacted by different factors and in different ways; generally the more negative factors which are identified with respect to a given security, the more likely we are to determine that we do not expect to receive all contractual payments when due with respect to that security. Significant judgment is required in this analysis.

We evaluate our other investments for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. The evaluation of recoverability is based on management's assessment of the financial condition and near term prospects of the commercial real estate project, the length of time and the extent to which the market value of the investment has been less than cost, availability and cost of financing, demand for space, competition for tenants, changes in market rental rates, and operating costs. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the values estimated by management in its recoverability analyses may not be realized, and actual losses or impairment may be realized in the future.

Recent Accounting Pronouncements

See Note 2 in Part I, Item 1. "Financial Statements" for information about recent accounting pronouncements.

RESULTS OF OPERATIONS

Consolidated Results

The following tables summarize the changes in our results of operations for the three months ended March 31, 2018 and 2017 (dollars in thousands):

	Three Months Ended March 31,		Increase (Decrease)	
	2018	2017	Amount	%
Revenues				
Golf course operations	\$ 53,554	\$ 46,296	\$ 7,258	15.7 %
Sales of food and beverages	13,106	12,845	261	2.0 %
Total revenues	66,660	59,141	7,519	12.7 %
Operating costs				
Operating expenses	57,379	50,509	6,870	13.6 %
Cost of sales - food and beverages	4,040	4,032	8	0.2 %
General and administrative expense	9,192	7,487	1,705	22.8 %
Management fee to affiliate	—	2,677	(2,677)	(100.0)%
Depreciation and amortization	5,548	5,793	(245)	(4.2)%
Pre-opening costs	1,556	—	1,556	N.M.
Impairment	1,473	—	1,473	N.M.
Realized and unrealized (gain) loss on investments	(242)	3,389	3,631	107.1 %
Total operating costs	78,946	73,887	5,059	6.8 %
Operating loss	(12,286)	(14,746)	(2,460)	(16.7)%
Other income (expenses)				
Interest and investment income	446	7,888	(7,442)	(94.3)%
Interest expense, net	(4,049)	(5,434)	(1,385)	(25.5)%
Other loss, net	(406)	(123)	283	230.1 %
Total other income (expenses)	(4,009)	2,331	(6,340)	(272.0)%
Loss before income tax	\$ (16,295)	\$ (12,415)	\$ 3,880	31.3 %

N.M. - Not meaningful

Revenues from Golf Course Operations

Revenues from golf course operations increased by \$7.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to: (i) a \$4.7 million increase due to management contract reimbursements reported for the first time under the new revenue standard in Q1 2018; (ii) a \$1.4 million increase in green fee and cart rental revenue as a result of favorable weather conditions, especially in California public properties, (iii) a 1.0 million increase due to additional initiation fees from new member sales and higher membership dues rates and (iv) a \$0.7 million increase in net driving range revenues at public golf properties as a result of the continued member growth of The Players Club program, partially offset by (v) a \$0.5 million decrease from properties that were exited in 2017.

Sales of Food and Beverages

Sales of food and beverages increased by \$0.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to a \$0.4 million increase as a result of favorable weather conditions, especially at our California public properties, partially offset by a \$0.1 million decrease from properties exited in 2017.

Operating Expenses

Operating expenses increased by \$6.9 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to: (i) a \$4.7 million increase due to management contract operating expense reimbursements reported for the first time under the new revenue standard in Q1 2018, (ii) a \$2.7 million increase in utilities, payroll, and other operating expenses as a result of favorable weather conditions, especially for our California public properties in the Traditional Golf business and (iii) a \$0.4 million increase in course cleanup, repairs and maintenance primarily due to hurricane-related damage in the Traditional Golf business, partially offset by (iv) a \$0.9 million decrease from Traditional Golf properties that were exited in 2017.

Cost of Sales - Food and Beverages

There was no significant change in cost of sales - food and beverages during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

General and Administrative Expense (including Acquisition and Transaction Expense)

General and administrative expense increased by \$1.7 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to: (i) a \$1.2 million increase in payroll expenses as a result of the Internalization, (ii) a \$0.6 million increase in technology expenses related to the development of our first Entertainment Golf venue, and (iii) a \$0.2 million increase in other professional fees as a result of the Internalization, partially offset by (iv) a \$0.3 million decrease in start-up related costs associated with the development of the Entertainment Golf business.

Management Fee to Affiliate

Management fee to affiliate decreased by \$2.7 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to the Internalization effective January 1, 2018.

Depreciation and Amortization

There was no significant change in depreciation and amortization during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Pre-Opening Costs

Pre-opening costs increased by \$1.6 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to expenses incurred, such as payroll and related costs, prior to the opening of the Entertainment Golf venue in Orlando, Florida.

Impairment

Impairment increased by \$1.5 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to a \$1.3 million impairment on a golf property that was reclassified as held-for-sale and a \$0.2 million impairment on a corporate loan.

Realized and Unrealized (Gain) Loss on Investments

Realized and unrealized (gain) loss on investments increased by \$3.6 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017. During the three months ended March 31, 2018, we recorded an unrealized gain of \$0.2 million on the mark-to-market value of derivatives. During the three months ended March 31, 2017, we recorded a realized loss of \$2.8 million on the sale of agency RMBS, an unrealized loss of \$2.5 million on the mark-to-market value of derivatives, an unrealized loss of \$0.6 million on the mark-to-market of agency RMBS, offset by a realized gain of \$2.5 million on the settlement of derivatives.

Interest and Investment Income

Interest and investment income decreased by \$7.4 million during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily due to: (i) a \$4.3 million decrease in interest income earned from agency RMBS and (ii) a \$3.4 million decrease of paid-in-kind ("PIK") interest earned on a resorts-related loan, offset by a \$0.3 million increase in corporate bank interest income earned on overnight cash deposits.

Interest Expense, Net

Interest expense, net decreased by \$1.4 million during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 primarily due to a \$1.2 million decrease in interest expense related to repurchase agreements on agency RMBS and a \$0.4 million decrease related to recording of capitalized interest, partially offset by a \$0.1 million increase as a result of higher financing cost on the junior subordinated notes and a \$0.1 million increase in membership deposit liability interest accretion due to additional members.

Other Loss, Net

Other loss, net increased by \$0.3 million during the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 due in part to lease disposition costs incurred in the three months ended March 31, 2018 in the Traditional Golf business.

Traditional Golf Segment Results

Comparison of Traditional Golf Results of Operations for the three months ended March 31, 2018 and 2017 (A)

	Three Months Ended March 31,		Increase (Decrease)	
	2018	2017	Amount	%
Revenues				
Golf course operations	\$ 53,554	\$ 46,296	\$ 7,258	15.7 %
Sales of food and beverages	13,106	12,845	261	2.0 %
Total revenues	66,660	59,141	7,519	12.7 %
Operating costs				
Operating expenses	57,379	50,509	6,870	13.6 %
Cost of sales - food and beverages	4,040	4,032	8	0.2 %
General and administrative expense	4,460	4,498	(38)	(0.8)%
Depreciation and amortization	5,513	5,793	(280)	(4.8)%
Impairment	1,326	—	1,326	N.M.
Realized and unrealized (gain) loss on investments	(242)	120	362	301.7 %
Total operating costs	72,476	64,952	7,524	11.6 %
Operating loss	(5,816)	(5,811)	5	0.1 %
Other income (expenses)			—	
Interest and investment income	51	39	12	30.8 %
Interest expense, net	(3,555)	(3,817)	(262)	(6.9)%
Other loss, net	(938)	(624)	314	50.3 %
Total other income (expenses)	(4,442)	(4,402)	40	0.9 %
Loss before income tax	\$ (10,258)	\$ (10,213)	\$ 45	0.4 %

N.M. - Not meaningful

(A) We own, lease or manage 74 and 78 golf properties as of March 31, 2018 and 2017, respectively.

Revenues from Golf Course Operations

Revenues from golf course operations increased by \$7.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to: (i) a \$4.7 million increase due to management contract reimbursements reported for the first time under the new revenue standard in Q1 2018; (ii) a \$1.4 million increase in green fee and cart rental revenue as a result of favorable weather conditions, especially at our California public properties, (iii) a \$1.0 million increase due to additional initiation fees from new member sales and higher membership dues rates and (iv) a \$0.7 million increase in net driving range revenues at public golf properties as a result of the continued member growth of The Players Club program, partially offset by (v) a \$0.5 million decrease from properties that were exited in 2017.

Sales of Food and Beverages

Sales of food and beverages increased by \$0.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to a \$0.4 million increase as a result of favorable weather conditions, especially at our California public properties, partially offset by a \$0.1 million decrease from properties exited in 2017.

Operating Expenses

Operating expenses increased by \$6.9 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to: (i) a \$4.7 million increase due to management contract operating expense reimbursements reported for the first time under the new revenue standard in Q1 2018, (ii) a \$2.7 million increase in utilities, payroll, and other operating expenses as a result of favorable weather conditions, especially in California public properties and (iii) a \$0.4 million increase in course cleanup, repairs and maintenance primarily due to hurricane-related damage, partially offset by (iv) a \$0.9 million decrease from properties that were exited in 2017.

Cost of Sales - Food and Beverages

There was no significant change in cost of sales - food and beverages during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

General and Administrative Expense (including Acquisition and Transaction Expense)

There was no significant change in general and administrative expense during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Depreciation and Amortization

Depreciation and amortization decreased by \$0.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to a \$0.5 decrease from the discontinuation of depreciation on property and equipment classified as held-for-sale, partially offset by a \$0.2 million increase in depreciation from additional capital leases.

Impairment

Impairment increased by \$1.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 due to an impairment on a golf property that was reclassified as to held-for-sale.

Realized and Unrealized (Gain) Loss on Investments

Realized and unrealized (gain) loss on investments increased by \$0.4 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to gains recorded on the interest rate cap for our Traditional Golf term loan.

Interest and Investment Income

There was no significant change in interest and investment income during the three months ended March 31, 2018 compared to the three months ended March 31, 2017.

Interest Expense, Net

Interest expense, net decreased by \$0.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to a \$0.4 million decrease related to capitalized interest recorded, partially offset by a \$0.1 million increase in membership deposit liability interest accretion due to additional members.

Other Loss, Net

Other loss, net increased by \$0.3 million during the three months ended March 31, 2018 compared to the three months ended March 31, 2017 primarily due to lease termination costs incurred in 2018.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Liquidity is a measurement of our ability to meet potential cash requirements, including ongoing commitments to repay borrowings and fund capital for our Traditional and Entertainment Golf businesses and other general business needs.

Our primary sources of funds for liquidity consist of cash on hand, net cash provided by operating activities, sales or repayments of assets, potential refinancing of existing debt and potential issuance of new debt or equity securities, when feasible. We have the ability to publicly or privately issue common stock, preferred stock, depository shares, debt securities and warrants, subject to market and other conditions. Our debt obligations are generally secured directly by our assets, except for the junior subordinated notes payable.

Sources of Liquidity and Uses of Capital

As of the date of this filing, we believe we have sufficient liquid assets, which include unrestricted cash, to satisfy all of our short-term recourse liabilities. Our junior subordinated notes payable are long-term obligations. With respect to the next 12 months, we expect that our cash on hand combined with our other primary sources of funds for liquidity will be sufficient to satisfy our anticipated liquidity needs with respect to our current portfolio, including related financings, capital expenditures for our Traditional and Entertainment Golf businesses, working capital needs and operating expenses. However, we may have additional cash requirements with respect to incremental investments related to our Traditional Golf business and executing our strategic objectives for our Entertainment Golf business. In addition to our available cash, we may elect to meet the cash requirements of these incremental investments through proceeds from the monetization of our assets or from additional borrowings, equity offerings or other means. While it is inherently more difficult to forecast beyond the next 12 months, we currently expect to meet our long-term liquidity requirements, specifically the repayment of our debt obligations and capital expenditures, through our cash on hand and, if needed, additional borrowings, proceeds from equity offerings and the sale or refinancing of our assets. We continually monitor market conditions for financing opportunities, and at any given time, we may enter into or pursue one or more of the transactions described above.

These short-term and long-term expectations are forward-looking and subject to a number of uncertainties and assumptions, which are described below under “—Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations” as well as Part II, Item 1A. “Risk Factors.” If our assumptions about our liquidity prove to be incorrect, we could be subject to a shortfall in liquidity in the future, and this shortfall may occur rapidly and with little or no notice, which would limit our ability to address the shortfall on a timely basis.

Cash flows provided by operations constitute a critical component of our liquidity. Essentially, our cash flows provided by operations is equal to (i) net cash flows received from our Traditional Golf business, plus (ii) the net cash flows from our Debt Investments that are not subject to mandatory debt repayment, including principal and sales proceeds, less (iii) Traditional Golf operating expenses, management fees, professional fees, insurance and other expenses, less (iv) interest on the junior subordinated notes payable and less (v) preferred dividends.

Our cash flows provided by operations differs from our net income (loss) due to these primary factors: (i) accretion of discount or premium on our real estate securities and loans (including the accrual of interest payable at maturity) and deferred financing costs, (ii) amortization of favorable and unfavorable leasehold intangibles from the acquisition of the Traditional Golf business in December 2013, (iii) accretion of the golf membership deposit liabilities in interest expense, (iv) recognition of deferred revenue from initiation fee deposits, (v) amortization of prepaid golf membership dues, (vi) gains and losses from sales of assets, (vii) the

valuation allowance recorded in connection with our loan assets, other-than-temporary impairment on our securities and investments, as well as impairments of Traditional Golf properties, (viii) unrealized gains or losses on our investments, (ix) non-cash gains or losses associated with our early extinguishment of debt, (x) non-cash gains on deconsolidation, and (xi) depreciation and amortization on our assets.

The sources of our distributions are net cash provided by operating activities, net cash provided by investing activities and cash equivalents as they represent the return on our portfolio of investments in real estate debt and golf-related real estate and operations. The Company has paid preferred dividends of \$1.4 million thus far in fiscal year 2018, and our board of directors elected not to declare common stock dividends in the first three months of fiscal year 2018 to retain capital for growth. For the three months ended March 31, 2018, the Company reported net cash used in operating activities of \$15.5 million, net cash used in investing activities of \$15.4 million, net cash used in financing activities of \$1.8 million and cash and cash equivalents of \$137.0 million as of March 31, 2018. As a result of our revocation of REIT election, effective January 1, 2017, we are no longer subject to the distribution requirements applicable to REITs. The timing and amount of distributions are in the sole discretion of our board of directors, which considers our earnings, financial performance and condition, debt service obligations and applicable debt covenants, tax considerations, as well as capital expenditure requirements, business prospects and other factors that our board of directors may deem relevant from time to time.

Update on Liquidity, Capital Resources and Capital Obligations

Cash – As of March 31, 2018, we had \$137.0 million of available cash, including \$14.3 million for the Traditional Golf business. On March 6, 2018, we declared a quarterly preferred dividend of \$1.4 million which was paid on April 30, 2018.

Short-term liquidity requirements – As of March 31, 2018, we expect our short-term liquidity requirements to include a total of approximately \$70.0 to \$80.0 million for both Drive Shack venues and customary Traditional Golf capital expenditures.

Our liquidity, available capital resources and capital obligations could change rapidly due to a variety of factors, many of which are beyond our control. Set forth below is a discussion of some of the factors that could impact our liquidity, available capital resources and capital obligations.

Factors That Could Impact Our Liquidity, Capital Resources and Capital Obligations

We refer readers to our discussions in other sections of this report for the following information:

- For a further discussion of recent trends and events affecting our liquidity, see “– Market Considerations” above;
- As described above, under “– Sources of Liquidity and Uses of Capital,” we may be subject to capital obligations associated with our Traditional and Entertainment Golf businesses;
- Our debt obligations are also subject to refinancing risk upon the maturity of the related debt. See “– Debt Obligations” below; and
- For a further discussion of a number of risks that could affect our liquidity, access to capital resources and our capital obligations, see Part II, Item 1A. “Risk Factors” below.

In addition to the information referenced above, the following factors could affect our liquidity, access to capital resources and our capital obligations related to our Traditional and Entertainment Golf businesses. As such, if their outcomes do not fall within our expectations, changes in these factors could negatively affect our liquidity.

- *Access to Financing from Counterparties* – Decisions by investors, counterparties and lenders to enter into transactions with us will depend upon a number of factors, such as our historical and projected financial performance, compliance with the terms of our current credit and derivative arrangements, industry and market trends, the availability of capital and our investors’, counterparties’ and lenders’ policies and rates applicable thereto, and the relative attractiveness of alternative investment or lending opportunities.
- *Impact of Expected Repayment or Forecasted Sale on Cash Flows* – The timing of and proceeds from the repayment or sale of certain assets may be different than expected or may not occur as expected. Proceeds from sales of assets in the current illiquid market environment are unpredictable and may vary materially from their estimated fair value and their carrying value.
- *Impact of Unexpected Costs, Cost Increases and Delayed Opening of our Entertainment Golf Venues on Cash Flows* – There may be unforeseen or higher than expected construction and development costs and the opening of new venues may be later than expected. These additional expenses and timing of opening may vary materially from our estimates.

- *Performance of the Traditional and Entertainment Golf businesses* - Current and future liquidity is greatly dependent upon our operating results, which are driven largely by overall economic conditions and can fluctuate significantly from quarter to quarter as a result of seasonal factors and discretionary consumer spending. We expect that economic and environmental conditions and changes in regulatory legislation will continue to exert pressure on both supplier pricing and consumer spending related to entertainment and dining alternatives. Although there is no assurance that our cost of products will remain stable or that federal, state or local minimum wage rates will not increase beyond amounts currently legislated, the effects of any supplier price increases or wage rate increases are expected to be partially offset by selected price increases where competitively appropriate.

Debt Obligations

Our debt obligations including capital lease obligations, as summarized in Note 7 to our Consolidated Financial Statements included herein, existing at March 31, 2018 (gross of \$1.5 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
Period from April 1, 2018 through December 31, 2018	\$ 3,643	\$ —	\$ 3,643
2019	107,003	—	107,003
2020	4,026	—	4,026
2021	2,688	—	2,688
2022	1,048	—	1,048
2023	185	—	185
Thereafter	200	51,004	51,204
Total	<u>\$ 118,793</u>	<u>\$ 51,004</u>	<u>\$ 169,797</u>

Certain of the debt obligations are obligations of our consolidated subsidiaries which own the related collateral. In some cases, such collateral is not available to other creditors of ours.

The financing of our Traditional Golf business contain various customary loan covenants, including certain coverage ratios. We were in compliance with all of the covenants in these financings as of March 31, 2018.

Equity

Common Stock

At March 31, 2018, we had 66,977,104 shares of common stock outstanding.

See Note 11 in Part I, Item 1. "Financial Statements" for information on our outstanding options as of March 31, 2018.

Preferred Stock Dividends Paid

Declared for the Quarter Ended	Paid	Amount Per Share		
		Series B	Series C	Series D
January 31, 2018	January 2018	\$ 0.609	\$ 0.503	\$ 0.523
April 30, 2018	April 2018	\$ 0.609	\$ 0.503	\$ 0.523

Accumulated Other Comprehensive Income

During the three months ended March 31, 2018, our accumulated other comprehensive income changed due to the following factors (in thousands):

	Total Accumulated Other Comprehensive Income	
Accumulated other comprehensive income, December 31, 2017	\$	1,370
Net unrealized gain on available-for-sale securities		33
Accumulated other comprehensive income, March 31, 2018	\$	1,403

Our GAAP equity changes as our real estate securities portfolio is marked to market each quarter, among other factors. The primary causes of mark-to-market changes are changes in interest rates. Net unrealized gains on our real estate securities increased during the three months ended March 31, 2018 in accumulated other comprehensive income primarily as a result of unrealized gains on our non-Agency RMBS caused by higher variable interest rates.

See “- Market Considerations” above for a further discussion of recent trends and events affecting our unrealized gains and losses as well as our liquidity.

Cash Flow

Operating Activities

Net cash used in operating activities was \$15.5 million for the three months ended March 31, 2018 and \$9.8 million for the three months ended March 31, 2017. Changes in operating cash flow activities are described below:

- Operating cash flows increased by:
 - \$1.4 million due to lower general and professional fees paid during the three months ended March 31, 2018 compared to the three months ended March 31, 2017;
 - \$0.9 million due to lower management fees paid during the three months ended March 31, 2018 compared to the three months ended March 31, 2017, as a result of the Internalization; and
 - \$0.3 million due to higher interest earned on overnight cash deposits.
- Operating cash flows decreased by:
 - \$2.4 million of payroll costs primarily due to the Internalization and increased employee hiring associated with the Entertainment Golf venue in Orlando;
 - \$1.6 million in lower operating cash flows from the Traditional Golf business primarily due to payments related to course clean up and repairs from hurricane damage; and
 - \$4.3 million of lower interest and other fees collected due to the sale of real estate securities.

Investing Activities

Investing activities used \$15.4 million and provided \$295.8 million during the three months ended March 31, 2018 and 2017, respectively. Uses of cash flow from investing activities consisted primarily of investments made in Traditional Golf properties and Entertainment Golf venues. Proceeds received from cash flows from investing activities consisted primarily of sale of investments, receipts from settlement of derivatives and repayments from loans and securities.

Financing Activities

Financing activities used \$1.8 million and \$298.3 million during the three months ended March 31, 2018 and 2017, respectively. Proceeds received from cash flow from financing activities consisted primarily of borrowings under debt obligations, return of margin deposits to our repurchase agreements and derivatives, and deposits received on golf memberships. Uses of cash flow from financing activities included the repayment of debt obligations, deposits made on margin calls related to our repurchase agreements and derivatives, the payment of financing costs, and the payment of common and preferred dividends.

Interest Rate Risk

We are subject to interest rate risk with respect to our credit facilities and corporate loan. These risks are further described in Part I, Item 3. “Quantitative and Qualitative Disclosures About Market Risk.”

Off-Balance Sheet Arrangements

As of March 31, 2018, we had the following material off-balance sheet arrangements. We believe that these off-balance sheet structures presented the most efficient and least expensive form of financing for these assets at the time they were entered, and represented the most common market-accepted method for financing such assets.

- In April 2006, we securitized Subprime Portfolio I. The loans were sold to a securitization trust, of which 80% were treated as a sale, which is an off-balance sheet financing.
- In July 2007, we securitized Subprime Portfolio II. The loans were sold to a securitization trust, of which 90% were treated as a sale, which is an off-balance sheet financing.

We have no obligation to repurchase any loans from either of our subprime securitizations. Therefore, it is expected that our exposure to loss is limited to the carrying amount of our retained interests in the securitization entities, as described above. A subsidiary of ours gave limited representations and warranties with respect to the second securitization; however, it has no assets and does not have recourse to the general credit of the Company.

In each case, our exposure to loss is limited to the carrying value of our investment.

CONTRACTUAL OBLIGATIONS

During the three months ended March 31, 2018, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2017. There were no material changes to our contractual obligations during the three months ended March 31, 2018.

Core Earnings

The following primary variables impact our operating performance: (i) the current yield earned on our investments that are not included in non-recourse financing structures (i.e., unlevered investments, including investments in equity method investees and investments subject to recourse debt), (ii) the net yield we earn from our non-recourse financing structures, (iii) the interest expense and dividends incurred under our recourse debt and preferred stock, (iv) the net operating income on our real estate and golf investments, (v) our operating expenses and (vi) our realized and unrealized gains or losses, net of related provision for income taxes, including any impairment, on our investments, derivatives and debt obligations. Core earnings is a non-GAAP measure of our operating performance excluding the sixth variable listed above. Core earnings also excludes depreciation and amortization charges, including the accretion of membership deposit liabilities and the impact of the application of acquisition accounting, acquisition and spin-off related expenses and restructuring expenses. Core earnings is used by management to evaluate our performance without taking into account gains and losses, net of related provision for income taxes, which, although they represent a part of our recurring operations, are subject to significant variability and are only a potential indicator of future performance. These adjustments to our income applicable to common stockholders are not indicative of the performance of the assets that form the core of our activity. Management utilizes core earnings as a measure in its decision-making process relating to the underlying fundamental operations of our investments, as well as the allocation of resources between those investments, and management also relies on core earnings as an indicator of the results of such decisions. As such, core earnings is not intended to reflect all of our activity and should be considered as only one of the factors in assessing our performance, along with GAAP net income, which is inclusive of all of our activities. Management also believes that the exclusion from core earnings of the items specified above allows investors and analysts to readily identify and track the operating performance of the assets that form the core of our activity, assists in comparing the core operating results between periods, and enables investors to evaluate our current core performance using the same measure that management uses to operate the business.

Core earnings does not represent an alternative to net income as an indicator of our operating performance or as an alternative to cash flows from operating activities as a measure of our liquidity, and is not indicative of cash available to fund cash needs. For a further description of the differences between cash flows provided by operations and net income, see “– Liquidity and Capital Resources” above. Our calculation of core earnings may be different from the calculation used by other companies and, therefore, comparability may be limited.

Set forth below is a reconciliation of core earnings to the most directly comparable GAAP financial measure (in thousands).

	Three Months Ended March 31,	
	2018	2017
Loss applicable to common stockholders	\$ (17,690)	\$ (14,349)
Add (Deduct):		
Impairment	1,473	—
Realized and unrealized loss (gain) on investments	(242)	3,389
Other loss (income) (A)	785	502
Depreciation and amortization (B)	8,259	8,407
Acquisition, transaction, restructuring and spin-off related expenses (C)	2,039	1,662
Core earnings	<u>\$ (5,376)</u>	<u>\$ (389)</u>

(A) Other (loss) income reconciliation:

	Three Months Ended March 31,	
	2018	2017
Total other (loss) income	\$ (4,009)	\$ 2,331
Add (deduct):		
Equity in earnings from equity method investments	(379)	(379)
Interest and investment income	(446)	(7,888)
Interest expense, net	4,049	5,434
Other (loss) income	<u>\$ (785)</u>	<u>\$ (502)</u>

(B) Including accretion of membership deposit liabilities of \$1.7 million and \$1.6 million and amortization of favorable and unfavorable leasehold intangibles of \$1.0 million and \$1.0 million in the three months ended March 31, 2018 and 2017, respectively. The accretion of membership deposit liabilities was recorded to interest expense, net and the amortization of favorable and unfavorable leasehold intangibles was recorded to operating expenses.

(C) Including acquisition and transaction expenses of \$1.8 million and \$1.7 million and restructuring expenses of \$0.2 million and less than \$0.1 million during the three months ended March 31, 2018 and 2017, respectively. The acquisition and transaction costs were recorded to general and administrative expense and restructuring expenses were recorded to operating expenses.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates, credit spreads, foreign currency exchange rates, commodity prices and equity prices. We substantially exited our real estate related debt positions, which significantly reduced our market risk exposure related to interest rate risk, credit spread risk and credit risk. We are also exposed to inflationary factors in our business.

Interest Rate Risk

We are exposed to market risks from fluctuations in interest rates on our credit facilities. The objective of our financial risk management is to minimize and mitigate the potential negative impact of interest rates. We do not acquire market risk sensitive instruments for trading purposes. We manage interest rate risk through the use of an interest rate cap which fixes the variable rate on the Traditional Golf term loan. A 25 basis point increase in LIBOR would increase our interest expense by approximately \$0.1 million per annum.

Inflation

The primary inflationary factors affecting our operations include materials and labor costs. In general, we have been able to partially offset cost increases resulting from inflation by increasing prices, improving productivity, or other operating changes. We may or may not be able to offset cost increases in the future. In addition, our leases require us to pay taxes, maintenance, repairs and utilities and these costs are subject to inflationary increases. In some cases, some of our lease commitments are tied to consumer price index (“CPI”) increases. Furthermore, our financial statements are prepared in accordance with GAAP and our distributions are determined by our board of directors primarily based on our capital needs, and, in each case, our activities and balance sheet are measured with reference to historical cost and/or fair market value without considering inflation. See “Interest Rate Risk” above.

Trends

See Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations – Market Considerations” for a further discussion of recent trends and events affecting our liquidity, unrealized gains and losses.

ITEM 4. CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. The Company’s management, with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company’s disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this report. The Company’s disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and completely. Based on such evaluation, the Company’s Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company’s disclosure controls and procedures are effective.
- (b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

We exited a leased property and accrued related lease exit costs of approximately \$0.8 million in December 2016. We are in a legal dispute related to this golf property. We have not accrued additional losses in connection with this legal dispute because management does not believe there is a probable and reasonably estimable loss at this time. However, the ultimate outcome of the proceedings may have a material adverse effect on our business, financial position or results of operations.

We are and may become involved in legal proceedings, including but not limited to regulatory investigations and inquiries, in the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, regulatory investigation or inquiry, in the opinion of management, we do not expect our current and any threatened legal proceedings, to have a material adverse effect on our business, financial position or results of operations. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

Item 1A. Risk Factors

Before you invest in our common stock, you should carefully consider the risks involved, including the risks set forth below.

Risks Related to Our Business

We may not be able to retain members at our public and private properties, and attract golf rounds played, which could harm our business, financial condition and results of operations.

Our success depends on our ability to retain members at our public and private properties, attract golf rounds played and maintain or increase revenues generated from our properties. Changes in consumer financial condition, leisure tastes and preferences, particularly those affecting the popularity of golf, and other social and demographic trends could adversely affect our business. Significant periods where attrition rates exceed enrollment rates or where facilities usage is below historical levels would have a material adverse effect on our business, results of operations and financial condition. If we cannot attract new members, retain our existing members, or maintain golf rounds played, our financial condition and results of operations could be harmed.

Changes in consumer financial condition, leisure tastes and preferences, spending patterns, particularly discretionary expenditures for leisure and recreation, are subject to factors beyond our control that may impact our business, financial condition and results of operations.

Consumer spending patterns, particularly discretionary expenditures for leisure and recreation, are subject to factors beyond our control that may impact our business, including demand for memberships, golf rounds played, and food and beverage sales. These factors include:

- economic recessions or downturns;
- increased unemployment;
- low consumer confidence and outlook;
- depressed housing markets;
- decreased corporate spending, including on events or tournaments;
- natural disasters, such as earthquakes, tornadoes, hurricanes, wildfires, blizzards, droughts and floods;
- outbreaks of epidemic, pandemic or contagious diseases;
- war, terrorist activities or threats and heightened travel security measures instituted in response to these events; and
- the financial condition of the airline, automotive and other transportation-related industries and its impact on travel.

These factors and other global, national and regional conditions can adversely affect, and from time to time have adversely affected, individual properties, particular regions or our business as a whole. Any one or more of these factors could limit or reduce demand or the rates we are able to charge for our memberships, services, or rounds, which could harm our business and results of operations.

Our businesses will remain subject to future economic recessions or downturns, and any significant adverse shift in increased unemployment and general economic conditions, whether local, regional, national or global, or in geographic areas in which we have concentrations of golf properties, such as California, may have a material adverse effect on our business, financial condition and results of operations. During such periods of adverse economic conditions, we may be unable to increase membership dues or the price of our rounds, products and services and may experience increased rates of resignations of existing members, a decrease

in the rate of new member enrollment, a decrease in golf rounds played or reduced spending on our properties, any of which may result in, among other things, financial losses and decreased revenues.

Unusual weather patterns and extreme weather events, as well as periodic and quasi-periodic weather patterns, could adversely affect the value of our golf courses or negatively impact our business and results of operations.

Our golf business is subject to various risks that may not apply to our other investments. For example, unusual weather patterns and extreme weather events, such as heavy rains, prolonged snow accumulations, high winds, extended heat waves and drought, could negatively affect the income generated by our facilities. The maintenance of satisfactory turf grass conditions on our golf properties requires significant amounts of water. Our ability to irrigate a golf course could be adversely affected by a drought or other cause of water shortage, such as government imposed restrictions on water usage. Additionally, we may be subject to significant increases in the cost of water. We have a concentration of golf facilities in states (such as California, Georgia, New York and Texas) that experience periods of unusually hot, cold, dry or rainy weather. Unfavorable weather patterns in such states, or any other circumstance or event that causes a prolonged disruption in the operations of our facilities in such states (including, without limitation, economic and demographic changes in these areas), could have a particularly adverse impact on our Traditional Golf business. See “-We may not be able to retain members at our public and private properties, and attract golf rounds played, which could harm our business, financial condition and results of operations” and “-Changes in consumer financial condition, leisure tastes and preferences, spending patterns, particularly discretionary expenditures for leisure and recreation, are subject to factors beyond our control that may impact our business, financial condition and results of operations.”

We have significant operations concentrated in certain geographic areas, and any disruption in the operations of our properties in any of these areas could harm our results of operations.

As of March 31, 2018, we operated multiple golf properties in several metropolitan areas, including 30 in the greater Los Angeles, California region. As a result, any prolonged disruption in the operations of our properties in any of these markets, whether due to technical difficulties, power failures or destruction or damage to the properties as a result of a natural disaster, such as hurricanes or earthquakes, fire or any other reason, could harm our results of operations or may result in property closures. In addition, some of the metropolitan areas where we operate properties could be disproportionately affected by regional economic conditions, such as declining home prices and rising unemployment. Concentration in these markets increases our exposure to adverse developments related to competition, as well as economic and demographic changes in these areas.

Seasonality may adversely affect our business and results of operations.

Seasonality will affect our golf business’s results of operations. Usage of golf facilities tends to decline significantly during the first and fourth quarters, when colder temperatures and shorter days reduce the demand for outdoor activities. As a result, we expect the golf business to generate a disproportionate share of its annual revenue in the second and third quarters of each year. Accordingly, our golf business is especially vulnerable to events that may negatively impact its operations during the second and third quarters, when guest and member usage is highest.

Competition in the industry in which we operate could have a material adverse effect on our business and results of operations.

We operate in a highly competitive industry, and compete primarily on the basis of reputation, featured facilities, location, quality and breadth of member product offerings and price. As a result, competition for market share in the industry in which we compete is significant. In order to succeed, we must take market share from local and regional competitors and sustain our membership base in the face of increasing recreational alternatives available to our existing and prospective members. Our properties compete on a local and regional level with restaurants and other business, dining and social clubs. The number and variety of competitors in this business varies based on the location and setting of each facility, with some situated in intensely competitive upscale urban areas characterized by frequent innovations in the products and services offered by competing restaurants and other business, dining and social clubs. In addition, in most regions, these businesses are in constant flux as new restaurants and other social and meeting venues open or expand their amenities. As a result of these characteristics, the supply in a given region often exceeds the demand for such facilities, and any increase in the number or quality of restaurants and other social and meeting venues, or the products and services they provide, in such region could significantly impact the ability of our properties to attract and retain members, which could harm our business and results of operations.

Our golf properties compete on a local and regional level with other country clubs and golf properties. The level of competition in the golf business varies from region to region and is subject to change as existing facilities are renovated or new facilities are developed. An increase in the number or quality of similar clubs and other facilities in a particular region could significantly increase competition, which could have a negative impact on our business and results of operations.

Our results of operations also could be affected by a number of additional competitive factors, including the availability of, and demand for, alternative venues for recreational pursuits, such as multi-use sports and athletic centers. In addition, member-owned and individual privately-owned clubs may be able to create a perception of exclusivity that we have difficulty replicating given the diversity of our portfolio and the scope of our holdings. To the extent these alternatives succeed in diverting actual or prospective members away from our facilities or affect our membership rates, our business and results of operations could be harmed.

Our large workforce subjects us to risks associated with increases in the cost of labor as a result of increased competition for employees, higher employee turnover rates and required wage increases and health benefit coverage, lawsuits or labor union activity.

Labor is one of our primary property-level operating expenses. We may face labor shortages or increased labor costs because of increased competition for employees, higher employee turnover rates, or increases in the federal or state minimum wage or other employee benefit costs. For example, if the federal minimum wage were increased significantly, we would have to assess the financial impact on our operations as we have a large population of hourly employees. If labor-related expenses increase, our operating expense could increase and our business, financial condition and results of operations could be harmed.

We are subject to the Fair Labor Standards Act and various federal and state laws governing such matters as minimum wage requirements, overtime compensation and other working conditions, citizenship requirements, discrimination and family and medical leave. In recent years, a number of companies have been subject to lawsuits, including class action lawsuits, alleging violations of federal and state law regarding workplace and employment matters, overtime wage policies, discrimination and similar matters. A number of these lawsuits have resulted in the payment of substantial damages by the defendants. Similar lawsuits may be threatened or instituted against us from time to time, and we may incur substantial damages and expenses resulting from lawsuits of this type, which could have a material adverse effect on our business, financial condition or results of operations.

We may not be able to attract and retain key management and other key employees.

Our employees, particularly our key management, are vital to our success and difficult to replace. We may be unable to retain them or to attract other highly qualified employees, particularly if we do not offer employment terms competitive with the rest of the market. Failure to attract and retain highly qualified employees, or failure to develop and implement a viable succession plan, could result in inadequate depth of institutional knowledge or skill sets, adversely affecting our business.

Increases in our cost of goods, rent, water, utilities, repairs, maintenance and taxes could reduce our operating margins and harm our business, financial condition and results of operations.

Increases in operating costs due to inflation and other factors may not be directly offset by increased revenue. Our most significant operating costs, other than labor, are our cost of goods, water, utilities, rent and property taxes. Many, and in some cases all, of the factors affecting these costs are beyond our control. Our cost of goods such as food and beverage costs account for a significant portion of our total property-level operating expense. While we have not experienced material increases in the cost of goods, if our cost of goods increased significantly and we are not able to pass along those increased costs to our members in the form of higher prices or otherwise, our operating margins would suffer, which would have an adverse effect on our business, financial condition and results of operations.

In addition, rent accounts for a significant portion of our property-level operating expense. Significant increases in our rent costs would increase our operating expense and our business, financial condition and results of operations may suffer. The prices of utilities are volatile, and shortages sometimes occur. In particular, municipalities are increasingly placing restrictions on the use of water for golf course irrigation and increasing the cost of water. Significant increases in the cost of our utilities, or any shortages, could interrupt or curtail our operations and lower our operating margins, which could have a negative impact on our business, financial condition and results of operations.

Each of our properties is subject to real and personal property taxes. The real and personal property taxes on our properties may increase or decrease as tax rates change and as our properties are assessed or reassessed by taxing authorities. If real and personal property taxes increase, our financial condition and results of operations may suffer.

We could be required to make material cash outlays in future periods if the number of initiation deposit refund requests we receive materially increases or if we are required to surrender unclaimed initiation deposits to state authorities under applicable escheatment laws.

We may be required to make significant cash outlays in connection with initiation fee deposits. Members of our private properties are generally required to pay an initiation fee deposit upon their acceptance as a member and, in most cases, such deposits are fully refundable after a fixed number of years (typically 30 years) and upon the occurrence of other contract-specific conditions. While we will make a refund to any member whose initiation fee deposit is eligible to be refunded, we may be subject to various states' escheatment laws with respect to initiation fee deposits that have not been refunded to members. All states have escheatment laws and generally require companies to remit to the state cash in an amount equal to unclaimed and abandoned property after a specified period of dormancy, which is typically 3 to 5 years. Moreover, most of the states in which we conduct business hire independent agents to conduct unclaimed and abandoned property audits. We currently do not remit to states any amounts relating to initiation fee deposits that are eligible to be refunded to members based upon our interpretation of the applicability of such laws to initiation fee deposits. The analysis of the potential application of escheatment laws to our initiation fee deposits is complex, involving an analysis of constitutional and statutory provisions and contractual and factual issues. While we do not believe that initiation fee deposits must be escheated, we may be forced to remit such amounts if we are challenged and fail to prevail in our position.

We have concentrated our investments in golf-related real estate and facilities, which are subject to numerous risks, including the risk that the values of our investments may decline if there is a prolonged downturn in real estate values.

Our operations consist almost entirely of golf properties that encompass a large amount of real estate holdings. Accordingly, we are subject to the risks associated with holding real estate investments. A prolonged decline in the popularity of golf could adversely affect the value of our real estate holdings and could make it difficult to sell facilities or businesses.

Our real estate holdings (including our long-term leaseholds) are subject to risks typically associated with investments in real estate. The investment returns available from equity investments in real estate depend in large part on the amount of income earned, expenses incurred and capital appreciation generated by the related properties. In addition, a variety of other factors affect income from properties and real estate values, including governmental regulations, real estate, insurance, zoning, tax and eminent domain laws, interest rate levels and the availability of financing. For example, new or existing real estate zoning or tax laws can make it more expensive and time-consuming to expand, modify or renovate older properties. Under eminent domain laws, governments can take real property. Sometimes this taking is for less compensation than the owner believes the property is worth. Any of these factors could have an adverse impact on our business, financial condition or results of operations.

If the owner for any of our managed properties defaults on its obligation to pay us our management fee under the management contract, we may not obtain the full amount, or any, of the revenue associated with that contract.

Our 9 managed properties are properties that American Golf manages pursuant to a management agreement with the owner of each property. If any property owner defaults on its obligation to pay us the management fee that we are entitled to receive under the management for the property, we are at risk of losing some or all of the revenue associated with that management agreement. In addition, we may decide to enforce our right to damages for breach of contract and related claims, which may cause us to incur significant legal fees and expenses. Any damages we ultimately collect may be less than the projected future value of the fees and other amounts we would have otherwise collected under the management agreement, which may result in, among other things, financial losses and decreased revenues.

The illiquidity of real estate may make it difficult for us to dispose of one or more of our properties or negatively affect our ability to profitably sell such properties and access liquidity.

We may from time to time decide to dispose of one or more of our real estate assets. Because real estate holdings generally, and properties like ours in particular, are relatively illiquid, we may not be able to dispose of one or more real estate assets on a timely basis. In some circumstances, sales may result in investment losses which could adversely affect our financial condition. The illiquidity of our real estate assets could mean that we continue to operate a facility that management has identified for disposition. Failure to dispose of a real estate asset in a timely fashion, or at all, could adversely affect our business, financial condition and results of operations, and impede our ability to fund our growth plans and access liquidity to be deployed in the operation of our business.

Timing, budgeting and other risks could delay our efforts to develop, redevelop or renovate the properties that we own, or make these activities more expensive, which could reduce our profits, impair our ability to compete effectively, and negatively impact liquidity.

We must regularly expend capital to construct, maintain and renovate the properties that we own in order to remain competitive, pursue our business strategies, maintain and build the value and brand standards of our properties and comply with applicable laws and regulations. We must also periodically upgrade or replace the furniture, fixtures and equipment necessary to operate our business. These efforts are subject to a number of risks, including:

- construction delays or cost overruns (including labor and materials) that may increase project costs;
- obtaining zoning, occupancy and other required permits or authorizations;
- governmental restrictions on the size or kind of development;
- force majeure events, including earthquakes, tornadoes, hurricanes or floods;
- design defects that could increase costs; and
- environmental concerns which may create delays or increase costs.

Our insurance policies may not provide adequate levels of coverage against all claims and we may incur losses that are not covered by our insurance.

There are certain types of losses, generally of a catastrophic nature, such as earthquakes, floods, hurricanes, terrorism or acts of war, that may be uninsurable or not economically insurable. Inflation, changes in building codes and ordinances, environmental considerations, and other factors, including terrorism or acts of war, also might make the insurance proceeds insufficient to repair or replace a property, if it is damaged or destroyed. Under such circumstances, the insurance proceeds received might not be adequate to restore our economic position with respect to the affected real property. For example, we may suffer losses from acts of terrorism that are not covered by insurance.

In addition, the mortgage loans that are secured by certain of the properties in which we have interests contain customary covenants, including covenants that require property insurance to be maintained in an amount equal to the replacement cost of the properties. There can be no assurance that the lenders under these mortgage loans will not take the position that exclusions from coverage for losses due to terrorist acts is a breach of a covenant which, if uncured, could allow the lenders to declare an event of default and accelerate repayment of the mortgage loans.

Accidents or injuries at our properties or in connection with our operations may subject us to liability, and accidents or injuries could negatively impact our reputation and attendance, which would harm our business, financial condition and results of operations.

There are inherent risks of accidents or injuries at our properties or in connection with our operations, including injuries from premises liabilities such as slips, trips and falls. If accidents or injuries occur at any of our properties, we may be held liable for costs related to such incidents. We maintain insurance of the type and in the amounts that we believe are commercially reasonable and that are available to businesses in our industry, but there can be no assurance that our liability insurance will be adequate or available at all times and in all circumstances. There can also be no assurance that the liability insurance we have carried in the past was adequate or available to cover any liability related to previous incidents. Our business, financial condition and results of operations could be harmed to the extent claims and associated expenses resulting from accidents or injuries exceed our insurance recoveries.

The failure to comply with regulations applicable to our properties or the failure to retain licenses or permits relating to our properties may harm our business and results of operations.

Our business is subject to extensive federal, state and local government regulation in the various jurisdictions in which our properties are located, including regulations relating to alcoholic beverage control, public health and safety, environmental hazards and food safety. Alcoholic beverage control regulations require each of our properties to obtain licenses and permits to sell alcoholic beverages on the premises. Typically, licenses must be renewed annually and may be revoked or suspended for cause at any time. In some states, the loss of a license for cause with respect to one location may lead to the loss of licenses at all locations in that state and could make it more difficult to obtain additional licenses in that state. Alcoholic beverage control regulations relate to numerous aspects of the daily operations of each venue, including minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling and storage and dispensing of alcoholic beverages.

The failure of a property to obtain or retain its licenses and permits would adversely affect that property's operations and profitability, as well as our ability to obtain such a license or permit in other locations. We may also be subject to dram shop statutes in certain

states, which generally provide a person injured by an intoxicated person the right to recover damages from an establishment that wrongfully served alcoholic beverages to the intoxicated person. Even though we are covered by general liability insurance, a settlement or judgment against us under a dram shop lawsuit in excess of liability coverage could have a material adverse effect on our operations. In addition, any of our locations located near airports must comply with land-use zoning ordinances related to the height of objects around airports, which are promulgated at the federal level based on advice and guidance published by the Federal Aviation Administration.

We are also subject to the Americans with Disabilities Act (the "ADA") which, among other things, may require certain renovations to our facilities to comply with access and use requirements. A determination that we are not in compliance with the ADA or any other similar law or regulation could result in the imposition of fines or an award of damages to private litigants. While we believe we are operating in substantial compliance, and will continue to remove architectural barriers in our facilities when readily achievable, in accordance with current applicable laws and regulations, there can be no assurance that our expenses for compliance with these laws and regulations will not increase significantly and harm our business, financial condition and results of operations.

We are also subject to numerous other federal, state and local governmental regulations related to building and zoning requirements and the use and operation of clubs, including changes to building codes and fire and life safety codes, which can affect our ability to obtain and maintain licenses relating to our business and properties. If we were required to make substantial modifications at our properties to comply with these regulations or if we fail to comply with these regulations, our business, financial condition and results of operations could be negatively impacted.

Environmental compliance costs and liabilities related to real estate that we own, or in which we have interests, may adversely affect our results of operations.

Our operating costs may be affected by the cost of complying with existing or future environmental laws, ordinances and regulations with respect to the properties (or loans secured by such properties) or by environmental problems that materially impair the value of such properties. Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under, or in such property. Such laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of such hazardous or toxic substances. In addition, the presence of hazardous or toxic substances, or the failure to remediate properly, may adversely affect the owner's ability to borrow using such real property as collateral. Certain environmental laws and common law principles could be used to impose liability for releases of hazardous materials, including asbestos-containing materials, into the environment, and third parties may seek recovery from owners or operators of real properties for personal injury associated with exposure to released asbestos-containing materials or other hazardous materials. Environmental laws may also impose restrictions on the manner in which a property may be used or transferred or in which businesses it may be operated, and these restrictions may require expenditures. In connection with the direct or indirect ownership and operation of properties, we may be potentially liable for any such costs. The cost of defending against claims of liability or remediating contaminated property and the cost of complying with environmental laws could adversely affect our results of operations and financial condition.

Our growth strategy depends on our ability to fund, develop and open new entertainment venues and operate them profitably.

A key element of our growth strategy is to develop and open entertainment golf venues. We have identified a number of locations for potential future entertainment golf venues. Our ability to fund, develop and open these venues on a timely and cost-effective basis, or at all, is dependent on a number of factors, many of which are beyond our control, including but not limited to our ability to:

- find quality locations;
- reach acceptable agreements regarding the lease or purchase of locations, and comply with our commitments under our lease agreements during the development and construction phases;
- comply with applicable zoning, licensing, land use and environmental regulations;
- raise or have available an adequate amount of cash or currently available financing for construction and opening costs;
- adequately complete construction for operations;
- timely hire, train and retain the skilled management and other employees necessary to meet staffing needs;
- obtain, for acceptable cost, required permits and approvals, including liquor licenses; and
- efficiently manage the amount of time and money used to build and open each new venue.

If we succeed in opening entertainment golf venues on a timely and cost-effective basis, we may nonetheless be unable to attract enough customers to these new venues because potential customers may be unfamiliar with our venue or concept, our entertainment and menu options might not appeal to them and we may face competition from other food and leisure venues. New venues may

operate at a loss, which could have a significant adverse effect on our overall operating results. We may also need to adjust our liquidity requirements to implement our strategies. Opening new entertainment golf venues in an existing market of our competitors, or our competitors opening in our markets, could reduce the revenue at our venues in that market.

The success of our growth strategy depends in part on our ability to procure or develop and protect our intellectual property rights adequately and is subject to competition in the entertainment and leisure industries, including from more established entrants with a longer operating history.

Our growth strategy depends on our ability to procure or develop and protect technologies to be used at our entertainment golf venues, and we may not be able to adequately procure or develop these technologies or protect the intellectual property rights in these technologies. Further, our competitors may adapt technologies or business models more quickly or effectively than we do, creating products that are technologically superior to ours or more appealing to consumers. As a result, we may lose an important advantage in the markets in which we open our entertainment golf venues. In addition, if third parties misappropriate or infringe, or otherwise inhibit access to, our intellectual property, our brand may fail to achieve and maintain market recognition and our growth strategy may be harmed. To protect the right to use our technologies and intellectual property, we may become involved in litigation, which could result in substantial expenses, divert the attention of management and adversely affect our revenue, financial condition and results of operations.

In addition, the successful execution of our growth strategy depends on our ability to compete effectively with others within the golf entertainment space, including more established entrants in the market with a longer operating history, and other forms of entertainment and leisure activities. It is difficult to predict and prepare for rapid changes in consumer demand that could materially alter public preferences for different forms of entertainment and leisure activities. Failure to adequately identify and adapt to these competitive pressures could negatively impact our business.

Our procurement of certain materials for developing, redeveloping or renovating our venues is dependent upon a few suppliers.

Our ability to continue to procure certain materials is important to our business strategy for developing, redeveloping or renovating our venues. The number of suppliers from which we can purchase our materials is limited. To the extent that the number of suppliers declines, we could be subject to the risk of distribution delays, pricing pressure, lack of innovation and other associated risks which could adversely affect our business, financial condition or results of operations.

Changes in laws, regulations and other requirements could adversely affect our business, results of operations or financial condition.

We are also subject to federal, state and local environmental laws, regulations and other requirements. More stringent and varied requirements of local and state governmental bodies with respect to zoning, land use and environmental factors could delay or prevent development of new venues in particular locations. Environmental laws and regulations also govern, among other things, discharges of pollutants into the air and water as well as the presence, handling, release and disposal of and exposure to hazardous substances. These laws provide for significant fines and penalties for noncompliance. Third parties may also make personal injury, property damage or other claims against us associated with actual or alleged release of, or exposure to, hazardous substances at our properties. We could also be strictly liable, without regard to fault, for certain environmental conditions at properties we formerly owned or operated as well as our current properties. The failure to receive or retain a liquor license, or any other required permit or license, in a particular location, or to continue to qualify for, or renew licenses, could have a material adverse effect on operations and our ability to obtain such a license or permit in other locations. In addition, changes in federal law relating to the height of objects around airports may interfere with the planned design, construction and operation of any of our Entertainment Golf venues located near airports.

Our investments in loans, and the loans underlying our investments in securities, are subject to delinquency, foreclosure and loss which could result in losses to us and expose us to additional risks.

Mortgage and asset-backed securities are bonds or notes backed by loans and/or other financial assets and include commercial mortgage-backed securities, FNMA/FHLMC securities, and real estate related asset-backed securities. The ability of a borrower to repay these loans or other financial assets is dependent upon the income or assets of these borrowers. If a borrower has insufficient income or assets to repay these loans, it will default on its loan. While we intend to focus on real estate related asset-backed securities, there can be no assurance that we will not invest in other types of asset-backed securities.

Our investments in mortgage and asset-backed securities will be adversely affected by defaults under the loans underlying such securities. To the extent losses are realized on the loans underlying the securities in which we invest, we may not recover the amount invested in, or, in extreme cases, any of our investment in such securities.

Declines in real estate values could harm our results of operations.

We believe the risks associated with our business are more severe during periods in which an economic slowdown or recession is accompanied by declining real estate values. Borrowers may be less able to pay principal and interest on our loans, and the loans underlying our securities, if the economy weakens. Further, declining real estate values significantly increase the likelihood that we will incur losses on our loans and securities in the event of default because the value of our collateral may be insufficient to cover our basis. Any sustained period of increased payment delinquencies, foreclosures or losses could adversely affect our net interest income from loans and securities in our portfolio, as well as our ability to sell and securitize loans, which would significantly harm our revenues, results of operations, financial condition, liquidity, business prospects and our ability to make distributions to our stockholders. For more information on the impact of market conditions on our business and results of operations generally, see Part I, Item 2. “Management’s Discussion and Analysis of Financial Condition and Results of Operations-Market Considerations.”

Lawsuits, investigations and indemnification claims could result in significant liabilities and reputational harm, which could materially adversely affect our results of operations, financial condition and liquidity.

From time to time, we are and may become involved in lawsuits, inquiries or investigations or receive claims for indemnification. Our efforts to resolve any such lawsuits, inquiries, investigations or claims could be very expensive and highly damaging to our reputation, even if the underlying claims are without merit. We could potentially be found liable for significant damages or indemnification obligations. Such developments could have a material adverse effect on our business, results of operations and financial condition.

Our risk of litigation includes, but is not limited to, lawsuits that could be brought by users of our properties and property-level employees. For instance, we are subject to federal and state laws governing minimum wage requirements, overtime compensation, discrimination and family and medical leave. Any lawsuit alleging a violation of any such laws could result in a settlement or other resolution that requires us to make a substantial payment, which could have a material adverse effect on our financial condition and results of operations. In addition, accidents or injuries in connection with our properties could subject us to liability and reputational harm.

A failure in our systems or infrastructure which maintain our internal and customer data, or those of our third-party service providers, including as a result of cyber-attacks, could result in faulty business decisions or harm to our reputation or subject us to costs, fines or lawsuits.

Certain information relating to our members and guests, including personally identifiable information and credit card numbers, is collected and maintained by us, or by third-parties that do business with us or facilitate our business activities. This information is maintained for a period of time for various business purposes, including maintaining records of member and guest preferences to enhance our customer service and for billing, marketing and promotional purposes. We also maintain personally identifiable information about our employees. The integrity and protection of our customer, employee and company data is critical to our business. Our members and guests and our employees expect that we will adequately protect their personal information, and the regulations applicable to security and privacy are increasingly demanding. Privacy regulation is an evolving area and compliance with applicable privacy regulations may increase our operating costs or adversely impact our ability to service our members and guests and market our properties and services.

To date we have not experienced any material losses relating to cyber-attacks, computer viruses or other systems or infrastructure failures. While we have cyber security procedures in place, given the evolving nature of these threats, there can be no assurance that we will not suffer material losses in the future due to cyber-attacks or other systems or infrastructure failures. The theft, loss, misappropriation, fraudulent or unlawful use of customer, employee or company data, including in connection with one or more cyber-attacks on us or one of our third-party providers, could harm our reputation, result in loss of members or business disruption or result in remedial and other costs, fines or lawsuits. In addition, non-compliance with applicable privacy regulations by us (or in some circumstances non-compliance by third-parties engaged by us) could result in fines or restrictions on our use or transfer of data. Any of these matters could adversely affect our business, financial condition or results of operations.

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information and to manage or support a variety of our business processes, including financial transactions and maintenance of records, which in the case of our business, may include personal identifying information. We rely on commercially available

systems, software, tools and monitoring to provide security for processing, transmitting and storing this confidential information, such as individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of the data maintained in our information systems, it is possible that our security measures will not be able to prevent the systems' improper functioning, or the improper disclosure of personally identifiable information such as in the event of cyber attacks. Security breaches, including physical or electronic break-ins, computer viruses, attacks by hackers and similar breaches, can create system disruptions, shutdowns or unauthorized disclosure of confidential information. Any failure to maintain proper function, security and availability of our information systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties and could materially and adversely affect our business, financial condition and results of operations.

Our investments may be subject to significant impairment charges, which would adversely affect our results of operations.

We are required to periodically evaluate our investments for impairment indicators. The value of an investment is impaired when our analysis indicates that, with respect to a loan, it is probable that we will not be able to collect the full amount we intended to collect from the loan or, with respect to a security or property, it is probable that the value of the security or property is other than temporarily impaired. The judgment regarding the existence of impairment indicators is based on a variety of factors depending upon the nature of the investment and the manner in which the income related to such investment was calculated for purposes of our financial statements. If we determine that an impairment has occurred, we are required to make an adjustment to the net carrying value of the investment and the amount of accrued interest recognized as income from such investment, which could have a material adverse effect on our results of operations.

Market conditions could negatively impact our business, results of operations and financial condition.

The markets in which we operate are affected by a number of factors that are largely beyond our control but can nonetheless have a potentially significant, negative impact on us. These factors include, among other things:

- Interest rates and credit spreads;
- The availability of credit, including the price, terms and conditions under which it can be obtained;
- The quality, pricing and availability of suitable investments and credit losses with respect to our investments;
- The ability to obtain accurate market-based valuations;
- Loan values relative to the value of the underlying real estate assets;
- Default rates on both residential and commercial mortgages and the amount of the related losses;
- Prepayment speeds;
- The actual and perceived state of the real estate markets, the U.S. economy and public capital markets generally;
- Unemployment rates; and
- The attractiveness of other types of investments relative to investments in real estate or generally.

Changes in these factors are difficult to predict, and a change in one factor can affect other factors. For example, during 2007, increased default rates in the subprime mortgage market played a role in causing credit spreads to widen, reducing availability of credit on favorable terms, reducing liquidity and price transparency of real estate related assets, resulting in difficulty in obtaining accurate mark-to-market valuations, and causing a negative perception of the state of the real estate. These conditions worsened during 2008, and intensified meaningfully during the fourth quarter of 2008 as a result of the global credit and liquidity crisis, resulting in extraordinarily challenging market conditions. Since then, despite recent market volatility, market conditions have generally improved, but they could deteriorate in the future for a variety of reasons.

We have assumed the role of manager of numerous CDOs previously managed by a third party. Each such engagement exposes us to a number of potential risks.

Changes within our industry may result in CDO collateral managers being replaced. In such instances, we have sought to be engaged as the collateral manager of CDOs currently managed by third parties. For example, in February 2011, one of our subsidiaries became the collateral manager of certain CDOs previously managed by C-BASS Investment Management LLC (“C-BASS”).

While being engaged as the collateral manager of such CDOs potentially enables us to grow our business, it also entails a number of risks that could harm our reputation, results of operations and financial condition. For example, we purchased the management rights with respect to the C-BASS CDOs pursuant to a bankruptcy proceeding. As a result, we were not able to conduct extensive due diligence on the CDO assets even though many classes of securities issued by the CDOs were rated as “distressed” by the rating agencies as of the most recent rating date prior to our becoming the collateral manager of the CDOs. We may willingly or unknowingly assume actual or contingent liabilities for significant expenses, we may become subject to new laws and regulations with which we are not familiar, and we may become subject to increased risk of litigation, regulatory investigation or negative publicity. For example, we determined that it would be prudent to register the subsidiary that became the collateral manager of the C-BASS CDOs as a registered investment adviser, which has increased our regulatory compliance costs. In addition to defending against litigation and complying with regulatory requirements, being engaged as collateral manager may require us to invest other resources for various other reasons, which could detract from our ability to capitalize on future opportunities. Moreover, being engaged as collateral manager may require us to integrate complex technological, accounting and management systems, which may be difficult, expensive and time-consuming and which we may not be successful in integrating into our current systems. In addition to the risk that we face if we are successful in becoming the manager of additional CDOs, we may attempt but fail to become the collateral manager of CDOs in the future, which could harm our reputation and subject us to costly litigation. Finally, if we include the financial performance of the C-BASS CDOs or other CDOs for which we become the collateral manager in our public filings, we are subject to the risk that, particularly during the period immediately after we become the collateral manager, this information may prove to be inaccurate or incomplete. The occurrence of any of these negative integration events could negatively impact our reputation with both regulators and investors, which could, in turn, subject us to additional regulatory scrutiny and impair our relationships with the investment community. The occurrence of any of these problems could negatively affect our reputation, financial condition and results of operations.

Our determination of how much leverage to apply to our investments may adversely affect our return on our investments and may reduce cash available for distribution.

We leverage a meaningful portion of our portfolio through borrowings, generally through the use of credit facilities, warehouse facilities, repurchase agreements, mortgage loans on real estate, private or public offerings of debt by subsidiaries, loans to entities in which we hold, directly or indirectly, interests in pools of properties or loans, and other borrowings. Our investment policies do not limit the amount of leverage we may incur with respect to any specific asset or pool of assets, subject to an overall limit on our use of leverage to 90% (as defined in our governing documents) of the value of our assets on an aggregate basis. We cannot assure you that we will be able to sustain our liquidity position.

We are subject to counterparty default and concentration risks.

In the ordinary course of our business, we enter into various types of financing arrangements with counterparties. Currently, the majority of our financing arrangements take the form of loans and other derivative and non-derivative contracts. The terms of these contracts are often customized and complex, and many of these arrangements occur in markets or relate to products that are not subject to regulatory oversight.

We are subject to the risk that the counterparty to one or more of these contracts defaults, either voluntarily or involuntarily, on its performance under the contract. Any such counterparty default may occur rapidly and without notice to us. Moreover, if a counterparty defaults, we may be unable to take action to cover our exposure, either because we lack the contractual ability or because market conditions make it difficult to take effective action. This inability could occur in times of market stress, which are precisely the times when defaults may be most likely to occur.

In addition, our risk-management processes may not accurately anticipate the impact of market stress or counterparty financial condition, and as a result, we may not take sufficient action to reduce our risks effectively. Although we monitor our credit exposures, default risk may arise from events or circumstances that are difficult to detect, foresee or evaluate. In addition, concerns about, or a default by, one large participant could lead to significant liquidity problems for other participants, which may in turn expose us to significant losses.

In the event of a counterparty default, particularly a default by a major investment bank, we could incur material losses rapidly, and the resulting market impact of a major counterparty default could seriously harm our business, results of operations and financial condition. In the event that one of our counterparties becomes insolvent or files for bankruptcy, our ability to eventually recover any losses suffered as a result of that counterparty's default may be limited by the liquidity of the counterparty or the applicable legal regime governing the bankruptcy proceeding.

The consolidation and elimination of counterparties has increased our counterparty concentration risk. We are not restricted from dealing with any particular counterparty or from concentrating any or all of our transactions with a few counterparties. If any of our counterparties elected not to roll these repurchase agreements, we may not be able to find a replacement counterparty. In addition, counterparties have generally tightened their underwriting standards and increased their margin requirements for financing, which has negatively impacted us in several ways, including, decreasing the number of counterparties willing to provide financing to us, decreasing the overall amount of leverage available to us, and increasing the costs of borrowing.

Any loss suffered by us as a result of a counterparty defaulting, refusing to conduct business with us or imposing more onerous terms on us would also negatively affect our business, results of operations and financial condition.

Our investments in debt securities are subject to specific risks relating to the particular issuer of the securities and to the general risks of investing in subordinated real estate securities.

Our investments in debt securities involve special risks. Our investments in debt are subject to the risks described above with respect to mortgage loans and mortgage-backed securities and similar risks, including:

- risks of delinquency and foreclosure, and risks of loss in the event thereof;
- the dependence upon the successful operation of and net income from real property;
- risks generally incident to interests in real property; and
- risks that may be presented by the type and use of a particular property.

Debt securities may be unsecured and may also be subordinated to other obligations of the issuer. We may also invest in debt securities that are rated below investment grade. As a result, investments in debt securities are also subject to risks of:

- limited liquidity in the secondary trading market;
- substantial market price volatility resulting from changes in prevailing interest rates or credit spreads;
- subordination to the prior claims of senior lenders to the issuer;
- the possibility that earnings of the debt security issuer may be insufficient to meet its debt service; and
- the declining creditworthiness and potential for insolvency of the issuer of such debt securities.

These risks may adversely affect the value of outstanding debt securities and the ability of the issuers thereof to repay principal and interest.

Our investments in real estate related and other loans and other direct and indirect interests in pools of real estate properties or other loans may be subject to additional risks relating to the structure and terms of these transactions, which may result in losses to us.

We have investments in real estate related and other loans and other direct and indirect interests in pools of real estate properties or loans. We have invested in mezzanine loans that take the form of subordinated loans secured by second mortgages on the underlying real property or other business assets or revenue streams or loans secured by a pledge of the ownership interests of the entity owning real property or other business assets or revenue streams (or the ownership interest of the parent of such entity). These types of investments involve a higher degree of risk than long-term senior lending secured by business assets or income producing real property because the investment may become unsecured as a result of foreclosure by a senior lender. In the event of a bankruptcy of the entity providing the pledge of its ownership interests as security, we may not have full recourse to the assets of such entity, or the assets of the entity may not be sufficient to repay our mezzanine loan. If a borrower defaults on our mezzanine loan or debt senior to our loan, or in the event of a borrower bankruptcy, our mezzanine loan will be satisfied only after the senior debt is repaid in full. As a result, we may not recover some or all of our investment. In addition, mezzanine loans may have higher loan to value ratios than conventional mortgage loans, resulting in less equity in the property and increasing the risk of loss of principal.

Investment in non-investment grade loans may involve increased risk of loss.

We have acquired certain loans that do not conform to conventional loan criteria applied by traditional lenders and are not rated or are rated as non-investment grade (for example, for investments rated by Moody's Investors Service, ratings lower than Baa3, and for Standard & Poor's, BBB- or below). The non-investment grade ratings for these loans typically result from the overall leverage of the loans, the lack of a strong operating history for the properties or businesses underlying the loans, the borrowers' credit history, the properties' underlying cash flows or other factors. As a result, these loans have a higher risk of default and loss than conventional loans. Any loss we incur may reduce distributions to our stockholders. There are no limits on the percentage of unrated or non-investment grade assets we may hold in our portfolio.

Many of our investments are illiquid, and this lack of liquidity could significantly impede our ability to vary our portfolio in response to changes in economic and other conditions or to realize the value at which such investments are carried if we are required to dispose of them.

The real estate properties that we own and operate and our other direct and indirect investments in real estate, loans and securities are generally illiquid. In addition, the real estate securities that we purchase in connection with privately negotiated transactions are not registered under the relevant securities laws, resulting in a prohibition against their transfer, sale, pledge or other disposition except in a transaction that is exempt from the registration requirements of, or is otherwise in accordance with, those laws. In addition, there are no established trading markets for a majority of our investments. As a result, our ability to vary our portfolio in response to changes in economic and other conditions may be limited.

Our real estate securities have historically been valued based primarily on third-party quotations, which are subject to significant variability based on the liquidity and price transparency created by market trading activity. In the past, dislocation in the trading markets has reduced the trading for many real estate securities, resulting in less transparent prices for those securities. During such times, it is more difficult for us to sell many of our assets because, if we were to sell such assets, we would likely not have access to readily ascertainable market prices when establishing valuations of them. If we are required to liquidate all or a portion of our illiquid investments quickly, we may realize significantly less than the amount at which we have previously valued these investments.

Interest rate fluctuations and shifts in the yield curve may cause losses.

Interest rates are highly sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors beyond our control. Our primary interest rate exposures relate to our real estate securities, loans, floating rate debt obligations and interest rate caps. Changes in interest rates, including changes in expected interest rates or "yield curves," affect our business in a number of ways. Changes in the level of interest rates may also affect the value of our real estate securities, loans and derivatives and our ability to realize gains from the sale of such assets. In the past, we have utilized hedging transactions to protect our positions from interest rate fluctuations, but as a result of market conditions we face significant obstacles to entering into new hedging transactions. As a result, we may not be able to protect new investments from interest rate fluctuations to the same degree as in the past, which could adversely affect our financial condition and results of operations. In the event of a significant rising interest rate environment and/or economic downturn, loan and collateral defaults may increase and result in credit losses that would adversely affect our liquidity and operating results. In March 2018, the U.S. Federal Reserve raised short-term interest rates by a quarter percentage point to between 150 basis points and 175 basis points.

Our ability to execute our business strategy, particularly the growth of our investment portfolio, depends to a significant degree on our ability to obtain additional capital. Our financing strategy for certain of our investments is dependent on our ability to place the match funded debt we use to finance our investments at rates that provide a positive net spread. If spreads for such liabilities widen or if demand for such liabilities ceases to exist, then our ability to execute future financings will be severely restricted.

Our investments in debt securities and loans are subject to changes in credit spreads, which could adversely affect our ability to realize gains on the sale of such investments.

Debt securities and loans are subject to changes in credit spreads. Credit spreads measure the yield demanded on securities and loans by the market based on their credit relative to a specific benchmark.

Fixed rate securities and loans are valued based on a market credit spread over the rate payable on fixed rate U.S. Treasuries of like maturity. Floating rate securities and loans are valued based on a market credit spread over LIBOR and are affected similarly by changes in LIBOR spreads. Excessive supply of these securities combined with reduced demand will generally cause the market to require a higher yield on these securities and loans, resulting in the use of a higher, or "wider," spread over the benchmark

rate to value such securities. Under such conditions, the value of our debt securities and loan portfolios would tend to decline. Conversely, if the spread used to value such securities were to decrease, or “tighten,” the value of our debt securities portfolio would tend to increase. Such changes in the market value of our debt securities and loan portfolios may affect our net equity, net income or cash flows directly through their impact on unrealized gains or losses on available-for-sale securities, and therefore our ability to realize gains on such securities, or indirectly through their impact on our ability to borrow and access capital.

We are actively exploring new business opportunities and asset categories, which could entail a meaningful change in our investment focus and operations and pose significant risks to our financial condition, results of operations and liquidity.

Consistent with our broad investment guidelines and our investment objectives, we have acquired and/or are pursuing a variety of assets that differ from the assets in our legacy portfolio, such as a Traditional Golf business (which we acquired in December 2013), excess mortgage servicing rights (“Excess MSRs”) (which we spun-off in May 2013), media assets (which we spun-off in February 2014), senior housing properties (which we spun-off in November 2014) and Entertainment Golf venues. Although we currently believe that we will have significant investment opportunities in the future, these opportunities may not materialize. In addition, our ability to act on new investment opportunities may be constrained by the requirements of the Investment Company Act of 1940, as amended (the “1940 Act”), or federal tax law. See “-Risks Related to Our Tax Status and the 1940 Act.”

New investments may not be profitable (or as profitable as we expect), may increase our exposure to certain industries (such as the lodging, gaming and leisure industry), may increase our exposure to interest rate, foreign currency, real estate market or credit market fluctuations, may divert managerial attention from more profitable opportunities, and may require significant financial and other resources. It may also take significant time to implement and realize the benefits of these investments. A change in our investment strategy may also increase our use of non-match-funded financing, increase the guarantee obligations we agree to incur or increase the number of transactions we enter into with affiliates. Moreover, new investments may present risks that are difficult for us to adequately assess, given our lack of familiarity with a particular industry, asset class or other reasons. The risks related to new asset categories or the financing risks associated with such assets could adversely affect our results of operations, financial condition and liquidity, and could impair our ability to pay dividends on both our common stock and preferred stock. In addition, our ability to invest in or finance new investments, including our Traditional Golf business, may be dependent upon our ability to monetize our real estate debt portfolio. See “-Risks Related to Our Business-We are not required to obtain stockholder consent to change our investment strategy or asset portfolio.”

Changes in accounting rules could occur at any time and could impact us in significantly negative ways that we are unable to predict or protect against.

As has been widely publicized, the SEC, the Financial Accounting Standards Board and other regulatory bodies that establish the accounting rules applicable to us have recently proposed or enacted a wide array of changes to accounting rules. Moreover, in the future these regulators may propose additional changes that we do not currently anticipate. Changes to accounting rules that apply to us could significantly impact our business or our reported financial performance in negative ways that we cannot predict or protect against. We cannot predict whether any changes to current accounting rules will occur or what impact any codified changes will have on our business, results of operations, liquidity or financial condition.

Failure to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

As a public company, we are required to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002. Internal control over financial reporting is complex and may be revised over time to adapt to changes in our business, or changes in applicable accounting rules. In connection with new investments, we may be required to consolidate additional entities, and, therefore, to document and test effective internal controls over the financial reporting of these entities in accordance with Section 404, which we may not be able to do. Even if we are able to do so, there could be significant costs and delays, particularly if these entities were not subject to Section 404 prior to being acquired by us. Under certain circumstances, the SEC permits newly acquired businesses to be excluded for a limited period of time from management’s annual assessment of the effectiveness of internal control. Our management identified a material weakness in our internal controls with respect to our financial statements for the year ended December 31, 2011. Although this was remediated, we cannot assure you that our internal control over financial reporting will be effective in the future or that a material weakness will not be discovered with respect to a prior period for which we believe that internal controls were effective. If we are not able to maintain or document effective internal control over financial reporting, our independent registered public accounting firm may not be able to certify as to the effectiveness of our internal control over financial reporting as of the required dates. Matters impacting our internal controls may cause us to be unable to report our financial information on a timely basis, or may cause us to restate previously issued financial information, and thereby subject us to adverse regulatory consequences, including sanctions or investigations by

the SEC, or violations of applicable stock exchange listing rules. There could also be a negative reaction in the financial markets due to a loss of investor confidence in us and the reliability of our financial statements. Confidence in the reliability of our financial statements is also likely to suffer if we or our independent registered public accounting firm reports a material weakness in our internal control over financial reporting. This could materially adversely affect us by, for example, leading to a decline in our share price and impairing our ability to raise capital.

Our agreements with New Residential and New Senior may not reflect terms that would have resulted from negotiations among unaffiliated third parties, and we have agreed to indemnify New Residential and New Senior for certain liabilities in connection with their respective spin-offs.

We completed the spin-off of New Residential in May 2013. The terms of the agreements related to the spin-off of New Residential, including a separation and distribution agreement dated April 26, 2013 (the “NRZ Separation and Distribution Agreement”) between us and New Residential and a management agreement between our Manager and New Residential, were not negotiated among unaffiliated third parties. Such terms were proposed by our officers and other employees of our Manager and approved by our board of directors. As a result, these terms may be less favorable to us than the terms that would have resulted from negotiations among unaffiliated third parties.

In the NRZ Separation and Distribution Agreement, we have agreed to indemnify New Residential and its affiliates and representatives against losses arising from: (a) any liability related to our junior subordinated notes due 2035; (b) any other liability that has not been defined as a liability of New Residential; (c) any failure by us and our subsidiaries (other than New Residential and its subsidiaries) (collectively, the “Newcastle Group”) to pay, perform or otherwise promptly discharge any liability listed under (a) and (b) above in accordance with their respective terms, whether prior to, at or after the time of effectiveness of the NRZ Separation and Distribution Agreement; (d) any breach by any member of the Newcastle Group of any provision of the NRZ Separation and Distribution Agreement and any agreements ancillary thereto (if any), subject to any limitations of liability provisions and other provisions applicable to any such breach set forth therein; and (e) any untrue statement or alleged untrue statement of a material fact or omission or alleged omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, with respect to all information contained in the information statement or the registration statement of which the information statement is a part that relates solely to any assets owned, directly or indirectly by us, other than New Residential’s initial portfolio of assets. Any indemnification payments that we may be required to make could have a significantly negative effect on our liquidity and results of operations.

We completed the spin-off of New Senior in November 2014. The terms of the separation and distribution agreement dated October 16, 2014 between us and New Senior are substantially similar to the terms of the NRZ Separation and Distribution Agreement and therefore subjects us to similar risks.

We are not required to obtain stockholder consent to change our investment strategy or asset portfolio.

Our investment decisions are based on a variety of factors, such as changing market conditions, perceived investment opportunities and available capital. Investment opportunities that present unattractive risk-return profiles relative to other available investment opportunities under particular market conditions may become relatively attractive under changed market conditions, and changes in market conditions may therefore result in changes in the investments we target. We do not have policies requiring the allocation of equity to different investment categories. Consequently, we have great latitude in determining which investments are appropriate for us, including the latitude to build concentrations in certain positions and to invest in asset classes that may differ significantly from those in our existing portfolio. Our directors periodically review our investment portfolio. However, our directors rely primarily on information provided to them by us, and they do not review or pre-approve each proposed investment or the related financing arrangements. In addition, we are not required to obtain stockholder consent in order to change our investment strategy and asset portfolio, which may result in making investments that are different, riskier or less profitable than our current investments.

Our investment strategy and asset portfolio have undergone meaningful changes in recent years through spin-offs and other strategic transactions and will continue to evolve in light of existing market conditions and investment opportunities. See “—We are actively exploring new business opportunities and asset categories, which could entail a meaningful change in our investment focus and operations and pose significant risks to our financial condition, results of operations and liquidity.”

We may not realize some or all of the targeted benefits of the Internalization.

Following the Internalization, the Manager agreed to provide certain services and personnel related mainly to information technology, legal, compliance, accounting and tax. These services will be provided at cost during the transition period. The failure to effectively complete the transition of these services to a fully internal basis, efficiently manage the transition with the Manager or find adequate internal replacements for these services, could impede our ability to achieve the targeted cost savings of the

Internalization and adversely affect our operations. In addition, complexities arising from the Internalization could increase our overhead costs and detract from management's ability to focus on operating our business.

We are reliant on certain transition services provided by the Manager under the Transition Services Agreement, and may not find a suitable provider for these transition services if the Manager no longer provides the transition services to which we are entitled under the Transition Services Agreement.

We remain reliant on the Manager during the period of the Transition Services Agreement, and the loss of these transition services could adversely affect our operations. We are subject to the risk that the Manager will default on its obligation to provide the transition services to which we are entitled under the Transition Services Agreement, or that we or the Manager will terminate the Transition Services Agreement pursuant to its termination provisions, and that we will not be able to find a suitable replacement for the transition services provided under the Transition Services Agreement in a timely manner, at a reasonable cost or at all. In addition, the Manager's liability to us if it defaults on its obligation to provide transition services to us during the transition period is limited by the terms of the Transition Services Agreement, and we may not recover the full cost of any losses related to such a default. We may also be adversely affected by operational risks, including cyber security attacks, that could disrupt the Manager's financial, accounting and other data processing systems during the period of the transition services.

Risks Related to Our Stock

Our stock price has fluctuated meaningfully, particularly on a percentage basis, and may fluctuate meaningfully in the future. Accordingly, you may not be able to resell your shares at or above the price at which you purchased them.

The trading price of our common stock has fluctuated significantly in the past. The trading price of our common stock could fluctuate significantly in the future and could be negatively affected in response to various factors, including:

- market conditions in the broader stock market in general, or in the real estate or golf industries in particular;
- our ability to make investments with attractive risk-adjusted returns;
- market perception of our current and projected financial condition, potential growth, future earnings and future cash dividends;
- announcements we make regarding dividends;
- actual or anticipated fluctuations in our quarterly financial and operating results;
- additional offerings of our common stock;
- actions by rating agencies;
- short sales of our common stock;
- any decision to pursue a distribution or disposition of a meaningful portion of our assets;
- any decision to meaningfully change our business strategy or sources of liquidity;
- issuance of new or changed securities analysts' reports or recommendations;
- media coverage of us, or the outlook of the real estate and golf industries;
- major reductions in trading volumes of our common stock, and on the exchanges on which we operate;
- credit deterioration within our portfolio;
- legislative or regulatory developments, including changes in the status of our regulatory approvals or licenses;
- litigation and governmental investigations; and
- any decision to pursue a spin-off of a portion of our assets.

These and other factors may cause the market price and demand for our common stock to fluctuate substantially, which may negatively affect the price or liquidity of our common stock. When the market price of a stock has been volatile or has decreased significantly in the past, holders of that stock have, at times, instituted securities class action litigation against the company that issued the stock. If any of our stockholders brought a lawsuit against us, we could incur substantial costs defending, settling or paying any resulting judgments related to the lawsuit. Such a lawsuit could also divert the time and attention of our management from our business and hurt our share price.

We may be unable—or elect not—to pay dividends on our common or preferred stock in the future, which would negatively impact our business in a number of ways and decrease the price of our common and preferred stock.

As a result of the revocation of our REIT election, effective January 1, 2017, we are no longer required by the REIT rules to make distributions of substantially all of our net taxable income. Our board of directors elected not to pay common stock dividends for 2017 and the first quarter of 2018 to retain capital for growth. All future dividend distributions will be made at the discretion of our board of directors and will depend upon, among other things, our earnings, investment strategy, financial condition and liquidity,

and such other factors as the board of directors deems relevant. No assurance can be given that we will pay any dividends on our common stock in the future.

We do not currently have unpaid accrued dividends on our preferred stock. However, to the extent we do, we cannot pay any dividends on our common stock, pay any consideration to repurchase or otherwise acquire shares of our common stock or redeem any shares of any series of our preferred stock without redeeming all of our outstanding preferred shares in accordance with the governing documentation. Consequently, the failure to pay dividends on our preferred stock restricts the actions that we may take with respect to our common stock and preferred stock. Moreover, if we do not pay dividends on any series of preferred stock for six or more periods, then holders of each affected series obtain the right to call a special meeting and elect two members to our board of directors. We cannot predict whether the holders of our preferred stock would take such action or, if taken, how long the process would take or what impact the two new directors on our board of directors would have on our company (other than increasing our director compensation costs). However, the election of additional directors would affect the composition of our board of directors and, thus, could affect the management of our business.

Shares eligible for future sale may adversely affect our common stock price.

Sales of our common stock or other securities in the public or private market, or the perception that these sales may occur, could cause the market price of our common stock to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our certificate of incorporation, we are authorized to issue up to 1,000,000,000 shares of common stock and we are authorized to reclassify a portion of our authorized preferred stock into common stock, and there were 66,977,104 shares of our common stock outstanding as of April 26, 2018. We cannot predict the size of future issuances of our common stock or other securities or the effect, if any, that future sales and issuances would have on the market price of our common stock.

An increase in market interest rates may have an adverse effect on the market price of our common stock.

One of the factors that investors may consider in deciding whether to buy or sell shares of our common stock is our distribution rate as a percentage of our share price relative to market interest rates. If the market price of our common stock is based primarily on the earnings and return that we derive from our investments and income with respect to our investments and our related distributions to stockholders, and not from the market value of the investments themselves, then interest rate fluctuations and capital market conditions will likely affect the market price of our common stock. For instance, if market interest rates rise without an increase in our distribution rate, the market price of our common stock could decrease as potential investors may require a higher distribution yield on our common stock or seek other securities paying higher distributions or interest. In addition, rising interest rates would result in increased interest expense on our variable rate debt, thereby adversely affecting cash flows and our ability to service our indebtedness and pay distributions.

ERISA may restrict investments by plans in our common stock.

A plan fiduciary considering an investment in our common stock should consider, among other things, whether such an investment is consistent with the fiduciary obligations under the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), including whether such investment might constitute or give rise to a prohibited transaction under ERISA, the Code or any substantially similar federal, state or local law and, if so, whether an exemption from such prohibited transaction rules is available.

Maryland takeover statutes may prevent a change of our control, which could depress our stock price.

Under Maryland law, “business combinations” between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include certain mergers, consolidations, share exchanges, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities or a liquidation or dissolution. An interested stockholder is defined as:

- any person who beneficially owns 10% or more of the voting power of the corporation’s outstanding shares; or
- an affiliate or associate of a corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of 10% or more of the voting power of the then outstanding stock of the corporation.
- A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which he or she otherwise would have become an interested stockholder.
- After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at

least:

- 80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation voting together as a single group; and
- two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than shares held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder voting together as a single voting group.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer, including potential acquisitions that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our staggered board and other provisions of our charter and bylaws may prevent a change in our control.

Our board of directors is divided into three classes of directors. Directors of each class are chosen for three-year terms upon the expiration of their current terms, and each year one class of directors is elected by the stockholders. The staggered terms of our directors may reduce the possibility of a tender offer or an attempt at a change in control, even though a tender offer or change in control might be in the best interest of our stockholders. In addition, our charter and bylaws also contain other provisions that may delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Our charter authorizes us to issue additional authorized but unissued shares of our common stock or preferred stock. In addition, our board of directors may classify or reclassify any unissued shares of our common stock or preferred stock and may set the preferences, rights and other terms of the classified or reclassified shares. As a result, our board of directors may establish a series of preferred stock that could delay or prevent a transaction or a change in control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

Risks Related to Our Tax Status and the 1940 Act

We no longer qualify for taxation as a REIT for U.S. federal income tax purposes effective as of January 1, 2017, and there can be no assurance that the IRS will not challenge our previous REIT status.

Although we elected for U.S. federal income tax purposes to be treated as a REIT for the 2016 taxable year and in prior taxable years, we revoked our REIT election for the tax year beginning January 1, 2017 and intend to be treated as a regular “C corporation” for that year and any year in the foreseeable future, and, as a result, we will be unable to claim the United States federal income tax benefits associated with REIT status. Moreover, there can be no assurance that the IRS will not challenge our qualification as a REIT for years in which we intended to qualify as a REIT. Although we believe we did qualify as a REIT in each such year, if the IRS were to successfully challenge our previous REIT status, we would suffer adverse tax consequences, such as those described below.

For the 2017 taxable year and future years (and for any prior year if we were to fail to qualify as a REIT in such year), we will generally be subject to federal income tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our stock. Our decision to revoke our REIT election could also have other effects on any given stockholder, depending on its particular circumstances. For example, certain foreign investors that own large positions in our stock may be subject to less favorable rules under the Foreign Investment in Real Property Tax Act of 1980 following the revocation of our REIT election. Stockholders are urged consult their tax advisors regarding the effects to them of the revocation of our REIT elections in light of their particular circumstances.

Our board of directors’ decision to revoke our REIT election means we will no longer be required to distribute substantially all of our net taxable income to our stockholders.

Prior to termination of our REIT election, we made distributions of a minimum of 90% of our taxable income each year in order to maintain our REIT status. On February 23, 2017, we revoked our election to be treated as a REIT, effective January 1, 2017. Consequently, we are no longer subject to the distribution requirements applicable to REITs. Our board of directors elected not to pay common stock dividends for 2017 and the first quarter of 2018 to retain capital for growth. All future dividend distributions will be made at the discretion of our board of directors and will depend upon, among other things, our earnings, investment strategy, financial condition and liquidity, and such other factors as the board of directors deems relevant, as well as any contractual restrictions.

In January 2013, we experienced an “ownership change” for purposes of Section 382 of the Code, which limits our ability to utilize our net operating loss and net capital loss carryforwards and certain built-in losses to reduce our future taxable income, potentially increases the net taxable income on which we must pay corporate-level taxes, and potentially adversely affects our liquidity, and we could experience another ownership change in the future or forgo otherwise attractive opportunities in order to avoid experiencing another ownership change.

As a result of our January 2013 “ownership change,” our future ability to utilize our net operating loss and net capital loss carryforwards to reduce our taxable income may be limited by certain provisions of the Code.

Specifically, the Code limits the ability of a company that undergoes an “ownership change” to utilize its net operating loss and net capital loss carryforwards and certain built-in losses to offset taxable income earned in years after the ownership change. An ownership change occurs if, during a three-year testing period, more than 50% of the stock of a company is acquired by one or more persons (or certain groups of persons) who own, directly or constructively, 5% or more of the stock of such company. An ownership change can occur as a result of a public offering of stock, as well as through secondary market purchases of our stock and certain types of reorganization transactions. Generally, when an ownership change occurs, the annual limitation on the use of net operating loss and net capital loss carryforwards and certain built-in losses is equal to the product of the applicable long-term tax exempt rate and the value of the company’s stock immediately before the ownership change. We have substantial net operating and net capital loss carry forwards which we have used, and will continue to use, to offset our taxable income. In January 2013, an “ownership change” for purposes of Section 382 of the Code occurred. Therefore, the provisions of Section 382 of the Code impose an annual limit on the amount of net operating loss and net capital loss carryforwards and built in losses that we can use to offset future taxable income.

The ownership change we experienced in January 2013 (and any subsequent ownership changes) could materially increase our income tax liability. As described above, the ownership change we experienced in January resulted in a limitation on our use of net operating losses and net capital loss carryforwards. These limitations could result in us incurring materially greater tax liability than if we had not undergone such an ownership change.

In addition, if we were to undergo an ownership change again in the future, our net operating losses and net capital loss carryforwards could become subject to additional limitations, which could result in us incurring materially greater tax liability than if we had not undergone such an ownership change. The determination of whether an ownership change has occurred or will occur is complicated and depends on changes in percentage stock ownership among stockholders. We adopted the Tax Benefits Preservation Plan described below in order to discourage an ownership change. However, there can be no assurance that the Tax Benefits Preservation Plan will prevent an ownership change. In addition, to the extent not prohibited by our charter, we may decide in the future that it is necessary or in our interest to take certain actions that could result in an ownership change. Therefore, no assurance can be provided as to whether an ownership change has occurred or will occur in the future.

Moreover, the potential negative consequences of the limitations that would result from an ownership change may discourage us from, among other things, redeeming our stock or issuing additional common stock to raise capital or to acquire businesses or assets. Accordingly, our desire to preserve our net operating losses and net capital loss carryforwards may cause us to forgo otherwise attractive opportunities.

Our Tax Benefits Preservation Plan could inhibit a change in our control that may otherwise be favorable to our stockholders.

In December 2017, our board of directors adopted a Tax Benefits Preservation Plan in an effort to protect against a possible limitation on our ability to use our net operating losses and net capital loss carryforwards by discouraging investors from acquiring ownership of our common stock in a manner that could trigger an “ownership change” for purposes of Sections 382 and 383 of the Code. Under the terms of the Tax Benefits Preservation Plan, in general, if a person or group acquires beneficial ownership of 4.9% or more of the outstanding shares of our Common Stock without prior approval of our board of directors or without meeting certain exceptions (an “Acquiring Person”), the rights would become exercisable and our stockholders (other than the Acquiring Person) will have the right to purchase securities from us at a discount to such securities’ fair market value, thus causing substantial dilution to the Acquiring Person. As a result, the Tax Benefits Preservation Plan may have the effect of inhibiting or impeding a change in control not approved by our board of directors and, notwithstanding its purpose, could adversely affect our stockholders’ ability to realize a premium over the then-prevailing market price for our common stock in connection with such a transaction. In addition, because our board of directors may consent to certain transactions, the Tax Benefits Preservation Plan gives our board of directors significant discretion over whether a potential acquirer’s efforts to acquire a large interest in us will be successful. There can be no assurance that the Tax Benefits Preservation Plan will prevent an “ownership change” within the

meaning of Sections 382 and 383 of the Code, in which case we may lose all or most of the anticipated tax benefits associated with our prior losses.

Qualifying as a REIT involves highly technical and complex provisions of the Code, and our failure to qualify as a REIT for any taxable year through 2016 would result in higher taxes and reduced cash available for distribution to our stockholders.

As described above, we operated through December 31, 2016 in a manner intended to qualify us as a REIT for federal income tax purposes. Qualification as a REIT involves the application of highly technical and complex Code provisions for which only limited judicial and administrative authorities exist. Even a technical or inadvertent violation could jeopardize our REIT qualification for such taxable years. Our qualification as a REIT depended on our satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements. Although we believe we satisfied those requirements, no assurance can be given in that regard.

Our failure to qualify as a REIT for a taxable year ending on or before December 31, 2015, would potentially give rise to a claim for damages from New Residential or New Senior.

In connection with the spin-off of New Residential, which was completed in May 2013, and the spin-off of New Senior which was completed in November 2014, we represented in the Separation Agreements that we had no knowledge of any fact or circumstance that would cause us to fail to qualify as a REIT. We also covenanted in the Separation Agreements to generally use our reasonable best efforts to maintain our REIT status for each of our taxable years ending on or before December 31, 2014 (in the case of New Residential) and December 31, 2015 (in the case of New Senior). If, notwithstanding our belief that we qualified as a REIT for such taxable years, we breached this representation or covenant, New Residential or New Senior, or both, could be able to seek damages from us, which could have a significantly negative effect on our liquidity and results of operations.

If New Residential failed to qualify as a REIT for 2013, or if New Senior failed to qualify as a REIT for 2014, it would significantly affect our ability to maintain our REIT status through December 31, 2016.

For federal income tax purposes we recorded approximately \$600 million of gain as a result of the spin-off of New Residential in May 2013 and \$450 million of gain as a result of the spin-off of New Senior in November 2014. If New Residential qualified for taxation as a REIT for 2013, and if New Senior so qualified for 2014, that gain is qualifying income for purposes of our REIT income tests in such years. If, however, New Residential failed to qualify as a REIT for 2013, or if New Senior failed to so qualify in 2014, that gain would be non-qualifying income for purposes of the 75% gross income test. Although New Residential and New Senior covenanted in their respective separation and distribution agreements to use reasonable best efforts to qualify as a REIT in 2013 and 2014, respectively, no assurance can be given that they so qualified. If New Residential or New Senior failed to qualify in such years, it could cause us to fail our REIT income tests for such years, which could cause us to lose our REIT status prior to the revocation of our REIT election for 2017, and thereby materially negatively impact our business, financial condition and potentially impair our ability to continue operating in the future.

New U.S. tax legislation could adversely affect us and our shareholders.

On December 22, 2017, legislation referred to as the Tax Act was signed into law. The Tax Act is generally effective for taxable years beginning after December 31, 2017. The Tax Act includes significant amendments to the Internal Revenue Code, including amendments that significantly change the taxation of individuals and business entities, including the deductibility of interest. Some of the amendments could adversely affect our business and financial condition and the value of our securities.

We continue to examine the impact the Tax Act may have on our business. However, the ultimate impact of the Tax Act may differ from the Company's estimates due to changes in the interpretations and assumptions made, as well as any forthcoming regulatory guidance. We revalued our net deferred tax assets and liabilities at the newly enacted federal corporate tax rate in fiscal 2017. While the impact of this new legislation was not material to our 2017 financial statements, we expect that, ultimately, the reduction of the federal corporate tax rate from 35% to 21% should be beneficial to the Company.

Prospective investors should consult their tax advisors about the Tax Act and its potential impact on an investment in our securities.

Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.

Tax rates in the United States, state and local jurisdictions have been and may be subject to significant change. The future effective tax rate of the Company could be effected by changes in mix of earnings in different jurisdictions with differing statutory tax rates,

changes in valuation of deferred tax asset and liabilities, or changes in tax laws or their interpretation, which includes recently enacted U.S. tax reform.

We are also subject to regular reviews, examinations and audits by the Internal Revenue Service and other taxing authorities. Although we believe the positions we have taken are reasonable, if a taxing authority disagrees with the positions we have taken, we could face additional tax liability, including interest and penalties. There can be no assurance that payment of such additional amounts upon final adjudication of any disputes will not have a material impact on our results of operations and financial position

Rapid changes in the values of assets that we hold may make it more difficult for us to maintain our exclusion from the 1940 Act.

If the market value or income potential of qualifying assets for purposes of our exclusion from registration as an investment company under the 1940 Act declines as a result of increased interest rates, changes in prepayment rates or other factors, or the market value or income potential from non-qualifying assets increases, we may need to increase our investments in qualifying assets and/or liquidate our non-qualifying assets to maintain our exclusion from registration under the 1940 Act. If the change in market values or income occurs quickly, this may be especially difficult to accomplish. This difficulty may be exacerbated by the illiquid nature of any non-qualifying assets we may own. We may have to make investment decisions that we otherwise would not make absent the intent to maintain our exclusion from registration under the 1940 Act.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
2.1 †	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.1, filed on May 3, 2013).
2.2 †	Separation and Distribution Agreement dated October 16, 2014, between New Senior Investment Group Inc. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.2, filed on November 5, 2014).
3.1	Articles of Restatement (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.2, filed on December 8, 2016).
3.2	Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.3, filed on May 13, 2003).
3.3	Articles Supplementary relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).
3.4	Articles Supplementary relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
3.5	Articles Supplementary of Series E Junior Participating Preferred Stock (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 3.5, filed on March 2, 2017).
3.6	Amended and Restated By-laws (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.4, filed on December 8, 2016).
4.1	Junior Subordinated Indenture between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.1, filed on May 4, 2009).
4.2	Pledge and Security Agreement between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, as trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.2, filed on May 4, 2009).
4.3	Pledge, Security Agreement and Account Control Agreement among Newcastle Investment Corp., NIC TP LLC, as pledgor, and The Bank of New York Mellon Trust Company, National Association, as bank and trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.3, filed on May 4, 2009).
4.4	Tax Benefits Preservation Plan, dated as of December 7, 2016, between Newcastle Investment Corp. and American Stock Transfer & Trust Company, LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.1, filed on December 8, 2016.)
4.5	Tax Benefits Preservation Plan, dated as of December 6, 2017, between Drive Shack Inc. and American Stock Transfer & Trust Company, LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.1, filed on December 6, 2017.)
10.1	Termination and Cooperation Agreement, dated December 21, 2017, by and between Drive Shack Inc. and FIG LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on December 21, 2017).
10.2	Transition Services Agreement, dated December 21, 2017, by and between Drive Shack Inc. and FIG LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.2, filed on December 21, 2017).
10.3	Letter Agreement, dated December 21, 2017, by and between Drive Shack Inc. and Sarah L. Watterson (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.3, filed on December 21, 2017).

<u>Exhibit Number</u>	<u>Exhibit Description</u>
10.4	Letter Agreement, dated December 21, 2017, by and between Drive Shack Inc. and Lawrence A. Goodfield, Jr. (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.4, filed on December 21, 2017).
10.5	Letter Agreement, dated December 21, 2017, by and between Drive Shack Inc. and Sara A. Yakin (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.5, filed on December 21, 2017).
10.6	2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of May 7, 2012 (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.3, filed on February 28, 2013).
10.7	Amended and Restated 2014 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of November 3, 2014 (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.5, filed on March 2, 2015).
10.8	2015 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan, adopted as of April 16, 2015 (incorporated by reference to Annex A of the Registrant's definitive proxy statement for the 2015 annual meeting of stockholders filed on April 17, 2015).
10.9	2016 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on May 19, 2016).
10.10	2017 Drive Shack Inc. Nonqualified Option and Incentive Award Plan (incorporated by reference to the Registrant's definitive proxy statement for the 2017 annual meeting of stockholders, filed on April 13, 2017).
10.11	Exchange Agreement between Newcastle Investment Corp. and Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd., dated April 30, 2009 (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).
10.12	Exchange Agreement, dated as of January 29, 2010, by and among Newcastle Investment Corp., Taberna Capital Management, LLC, Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd. (incorporated by reference to the Registrant's Report on Form 8-K, Exhibit 10.1, filed on February 2, 2010).
10.13	Form of Indemnification Agreement (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.19, filed on August 8, 2014).
31.1	Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
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.

† Schedules and exhibits may have been omitted pursuant to Item 601(b)(2) of Regulation S-K.

- 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.

May 4, 2018

/s/ Sarah L. Watterson

Sarah L. Watterson

Chief Executive Officer and President

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Section 3: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Lawrence A. Goodfield, Jr., certify that:

1. I have reviewed this quarterly report on Form 10-Q of Drive Shack 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 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.

May 4, 2018

/s/ Lawrence A. Goodfield, Jr.

Lawrence A. Goodfield, Jr.

Chief Financial Officer, Chief Accounting Officer and Treasurer

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Section 4: EX-32.1 (EXHIBIT 32.1)

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Drive Shack Inc. (the "Company") for the quarterly period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Sarah L. Watterson, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Sarah L. Watterson

Sarah L. Watterson

Chief Executive Officer and President

May 4, 2018

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

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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Section 5: EX-32.2 (EXHIBIT 32.2)

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Drive Shack Inc. (the "Company") for the quarterly period ended March 31, 2018 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Lawrence A. Goodfield, Jr., as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Lawrence A. Goodfield, Jr.

Lawrence A. Goodfield, Jr.

Chief Financial Officer, Chief Accounting Officer and Treasurer

May 4, 2018

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

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

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