

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 September 30, 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 every Interactive Data File required to be submitted 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 such files).

S Yes No £

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

Large accelerated filer £ Accelerated filer S Non-accelerated filer £

Smaller reporting company £ Emerging growth company £

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

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

Yes £ No 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: 67,027,104 shares outstanding as of November 1, 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, our operating performance, the 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,” “forecast,” “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 and guests to our 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)

	(Unaudited)	
	September 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and cash equivalents	\$ 99,389	\$ 167,692
Restricted cash	4,176	5,178
Accounts receivable, net	9,209	8,780
Real estate assets, held-for-sale, net	158,602	2,000
Real estate securities, available-for-sale	3,202	2,294
Other current assets	26,257	21,568
Total current assets	300,835	207,512
Restricted cash, noncurrent	1,012	818
Property and equipment, net of accumulated depreciation	101,582	241,258
Intangibles, net of accumulated amortization	50,121	57,276
Other investments	22,265	21,135
Other assets	10,950	8,649
Total assets	\$ 486,765	\$ 536,648
Liabilities and Equity		
Current liabilities		
Credit facilities and obligations under capital leases	\$ 106,377	\$ 4,652
Membership deposit liabilities	8,863	8,733
Accounts payable and accrued expenses	40,487	36,797
Deferred revenue	6,880	31,207
Real estate liabilities, held-for-sale	5,147	—
Other current liabilities	14,646	22,596
Total current liabilities	182,400	103,985
Credit facilities and obligations under capital leases - noncurrent	11,582	112,105
Junior subordinated notes payable	51,202	51,208
Membership deposit liabilities, noncurrent	89,549	86,523
Deferred revenue, noncurrent	7,817	6,930
Other liabilities	5,247	4,846
Total liabilities	\$ 347,797	\$ 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 September 30, 2018 and December 31, 2017	\$ 61,583	\$ 61,583
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 67,027,104 and 66,977,104 shares issued and outstanding at September 30, 2018 and December 31, 2017, respectively	670	670
Additional paid-in capital	3,174,948	3,173,281
Accumulated deficit	(3,100,404)	(3,065,853)
Accumulated other comprehensive income	2,171	1,370
Total equity	\$ 138,968	\$ 171,051
Total liabilities and equity	\$ 486,765	\$ 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues				
Golf operations	\$ 68,928	\$ 62,034	\$ 191,632	\$ 168,969
Sales of food and beverages	18,491	19,657	53,451	53,223
Total revenues	87,419	81,691	245,083	222,192
Operating costs				
Operating expenses	70,330	63,384	194,751	175,920
Cost of sales - food and beverages	5,180	5,721	15,413	15,762
General and administrative expense	10,149	8,188	29,611	22,734
Management fee to affiliate	—	2,678	—	8,032
Depreciation and amortization	4,495	6,187	14,358	17,952
Pre-opening costs	245	141	2,048	191
Impairment	4,172	28	5,645	60
Realized and unrealized (gain) loss on investments	48	(315)	(283)	6,361
Total operating costs	94,619	86,012	261,543	247,012
Operating loss	(7,200)	(4,321)	(16,460)	(24,820)
Other income (expenses)				
Interest and investment income	467	8,418	1,382	22,701
Interest expense, net	(4,290)	(4,770)	(12,940)	(15,335)
Other (loss) income, net	(3,052)	202	(7,157)	372
Total other income (expenses)	(6,875)	3,850	(18,715)	7,738
Loss before income tax	(14,075)	(471)	(35,175)	(17,082)
Income tax (benefit) expense	—	(2)	—	1,047
Net Loss	(14,075)	(469)	(35,175)	(18,129)
Preferred dividends	(1,395)	(1,395)	(4,185)	(4,185)
Loss Applicable to Common Stockholders	\$ (15,470)	\$ (1,864)	\$ (39,360)	\$ (22,314)
Loss Applicable to Common Stock, per share				
Basic	\$ (0.23)	\$ (0.03)	\$ (0.59)	\$ (0.33)
Diluted	\$ (0.23)	\$ (0.03)	\$ (0.59)	\$ (0.33)
Weighted Average Number of Shares of Common Stock Outstanding				
Basic	66,992,322	66,932,744	66,982,233	66,883,291
Diluted	66,992,322	66,932,744	66,982,233	66,883,291

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net loss	\$ (14,075)	\$ (469)	\$ (35,175)	\$ (18,129)
Other comprehensive income (loss):				
Net unrealized gain on available-for-sale securities	738	1,257	801	2,524
Reclassification of net realized gain on securities into earnings	—	(2,345)	—	(2,345)
Other comprehensive income (loss)	738	(1,088)	801	179
Total comprehensive loss	\$ (13,337)	\$ (1,557)	\$ (34,374)	\$ (17,950)
Comprehensive loss attributable to Drive Shack Inc. stockholders' equity	\$ (13,337)	\$ (1,557)	\$ (34,374)	\$ (17,950)

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF EQUITY (Unaudited)

FOR THE NINE MONTHS ENDED SEPTEMBER 30, 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	—	—	—	—	—	(4,185)	—	(4,185)
Stock-based compensation	—	—	—	—	1,357	—	—	1,357
Purchase of common stock (directors)	—	—	50,000	—	310	—	—	310
Adoption of ASC 606 (Note 3)	—	—	—	—	—	4,809	—	4,809
Comprehensive income (loss)								
Net loss	—	—	—	—	—	(35,175)	—	(35,175)
Other comprehensive income	—	—	—	—	—	—	801	801
Total comprehensive loss								(34,374)
Equity (deficit) - September 30, 2018	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>67,027,104</u>	<u>\$ 670</u>	<u>\$ 3,174,948</u>	<u>\$ (3,100,404)</u>	<u>\$ 2,171</u>	<u>\$ 138,968</u>

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

(dollars in thousands, except share data)

	Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities		
Net loss	\$ (35,175)	\$ (18,129)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	14,358	17,952
Amortization of discount and premium	891	(3,856)
Other amortization	8,217	7,889
Net interest income on investments accrued to principal balance	—	(8,458)
Amortization of revenue on golf membership deposit liabilities	(1,127)	(963)
Amortization of prepaid golf membership dues	(19,570)	(20,017)
Stock-based compensation	1,409	376
Impairment	5,645	60
Equity in earnings from equity method investments, net of distributions	(1,123)	(1,149)
Other losses, net	2,075	5,368
Unrealized (gain) loss on investments	(283)	1,246
Loss on extinguishment of debt	66	327
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	1,436	(1,053)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	1,064	5,405
Net cash used in operating activities	(22,117)	(15,002)
Cash Flows From Investing Activities		
Principal repayments from investments	—	100,020
Proceeds from sale of property and equipment	3,186	—
Proceeds from sale of securities and loans	—	595,850
Net payments for settlement of TBAs	—	(4,669)
Acquisition and additions of property and equipment and intangibles	(36,542)	(16,905)
Deposits paid on property and equipment	(8,246)	(1,486)
Contributions to equity method investees	(7)	(196)
Net cash (used in) provided by investing activities	(41,609)	672,614
Cash Flows From Financing Activities		
Borrowings under debt obligations	—	1,651
Repayments of debt obligations	(3,712)	(605,469)
Margin deposits under repurchase agreements and derivatives	—	(89,692)
Return of margin deposits under repurchase agreements and derivatives	—	87,785
Golf membership deposits received	2,544	2,706
Issuance of common stock	258	—
Common stock dividends paid	—	(8,019)
Preferred stock dividends paid	(4,185)	(4,185)
Payment of deferred financing costs	—	(22)
Other financing activities	(290)	(504)
Net cash used in financing activities	(5,385)	(615,749)
Net Decrease in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	(69,111)	41,863
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	\$ 104,577	\$ 188,407
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	\$ 4,035	\$ 3,601
Changes in property and equipment not yet paid for	\$ (945)	\$ 4,135

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2018

(dollars in tables in thousands, except share data)

1. ORGANIZATION

Drive Shack Inc., which is referred to, together with its subsidiaries, as “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 and (iii) 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 September 30, 2018, the Company owned, leased or managed 72 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.

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 September 30, 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 in Note 12) 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 and \$11.6 million, respectively, from “Operating expenses” to “General and administrative expense” for the three and nine months ended September 30, 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 the nine months ended September 30, 2017 included an increase of \$1.9 million in “Margin deposits under repurchase agreements and derivatives.”

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2018

(dollars in tables in thousands, except share data)

REVENUE RECOGNITION

Golf Operations

Traditional Golf — Revenue from green fees, cart rentals, merchandise sales and other operating activities (consisting primarily of range income, banquets and club amenities) is 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.

Entertainment Golf — Revenue from bay play, events, and other operating activities (consisting primarily of instruction and merchandise sales) is generally recognized at the time of sale, when services are rendered and collection is reasonably assured.

Revenue from general memberships is recognized at the time of sale. Dues from other membership programs are included in deferred revenue and recognized as revenue ratably over the appropriate period, which is generally twelve months or less.

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

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

SEPTEMBER 30, 2018

(dollars in tables in thousands, except share data)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
(Gain) on settlement of real estate securities	\$ —	\$ (2,345)	\$ —	\$ (2,345)
Loss on settlement of real estate securities	—	—	—	2,803
Unrealized loss on securities, intent-to-sell	—	—	—	558
(Gain) on settlement of loans held-for-sale	—	—	—	(12)
Realized loss on settlement of TBAs, net	—	228	—	4,669
Unrealized loss (gain) on non-hedge derivative instruments	48	1,802	(283)	688
Realized and unrealized (gain) loss on investments	\$ 48	\$ (315)	\$ (283)	\$ 6,361
Loss on lease modifications and terminations	\$ (173)	\$ (1)	\$ (969)	\$ (161)
Gain (loss) on extinguishment of debt, net	75	(145)	(66)	(327)
Collateral management fee income, net	142	92	443	341
Equity in earnings of equity method investments	357	387	1,123	1,149
(Loss) gain on disposal of long-lived assets and intangibles	(2,769)	(3)	(1,921)	23
Other loss (A)	(684)	(128)	(5,767)	(653)
Other (loss) income, net	\$ (3,052)	\$ 202	\$ (7,157)	\$ 372

(A) During the nine months ended September 30, 2018, the Company recorded a net loss of approximately \$4.9 million related to the settlement of a legal dispute and a related discharge of liabilities assumed by the counterparty to the settlement. See Note 13 for additional information.

Reclassification From Accumulated Other Comprehensive Income Into Net Income — The following table summarizes the amounts reclassified out of accumulated other comprehensive income into net income:

Accumulated Other Comprehensive Income ("AOCI") Components	Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Net realized (gain) on securities:					
(Gain) on settlement of real estate securities	Realized and unrealized (gain) loss on investments	\$ —	\$ (2,345)	\$ —	\$ (2,345)
Total reclassifications		\$ —	\$ (2,345)	\$ —	\$ (2,345)

EXPENSE RECOGNITION

Operating Expenses — Operating expenses consist primarily of payroll (Traditional Golf property level and Entertainment Golf venue level), utilities, repairs and maintenance, supplies, marketing and operating lease rent expense.

Traditional Golf

Operating expenses for Traditional Golf also include equipment and cart leases, seed, soil and fertilizer, and certain operating costs incurred at managed Traditional Golf properties. 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

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10 to 20 years, and typically, the leases contain renewal options. Certain leases include scheduled 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.

Entertainment Golf

Operating expenses for Entertainment Golf also include information technology-related support and maintenance.

General and Administrative Expense — General and administrative expense consists of costs associated with corporate and administrative functions that support development and operations.

Pre-Opening Costs — Pre-opening costs are expensed as incurred and consist primarily of marketing expenses, 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 September 30, 2018, the Company had one interest rate cap with a fair value of \$0.6 million which was 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. The Company capitalizes to construction in progress certain costs related to properties under construction. 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.

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	2-7 years

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. The Company suspends depreciation and amortization for assets held-for-sale. Subsequent changes to the estimated fair value less costs to sell will impact the measurement of assets held-for-sale. Decreases are recognized as an impairment loss and recorded in "Impairment" on the Consolidated Statements of Operations. To the extent the fair value increases, any previously reported impairment is reversed. Real estate held-for-sale is recorded in "Real estate assets, held-for-sale, net" and "Real estate liabilities, held-for-sale" on the Consolidated Balance Sheets.

Traditional Golf

With respect to Traditional 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 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 present value of associated payments. Depreciation of capital lease assets is calculated using the straight-line method over the shorter of the estimated useful lives or the expected lease terms. The cost of equipment under capital leases is recorded in "Property and equipment, net of accumulated depreciation"

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on 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.

Entertainment Golf

Entertainment Golf includes land, buildings, furniture, fixtures and equipment and leasehold improvements including building and land improvements.

Intangibles, Net — Intangible assets and liabilities consist primarily of leasehold advantages (disadvantages), management contracts, membership base and internally-developed software. A leasehold advantage (disadvantage) exists to the Company when it pays a contracted rent that is below (above) market rents at the date of an 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 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 using the discounted cash flow method 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. The internally-developed software intangible represents proprietary software developed for the Company's exclusive use. For Traditional Golf, the internally-developed software intangible is valued using the discounted cash flow method under the income approach at the date of an acquisition transaction. For Entertainment Golf, the internally-developed software intangible is composed of costs incurred to develop the software. The internally-developed software intangible is amortized over the expected useful life of the software.

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	2-26 years
Management contracts	2-26 years
Internally-developed software	5-10 years
Membership base	7 years
Liquor licenses	Nonamortizable

Membership Deposit Liabilities — Private country club members in our Traditional Golf business 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 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 September 30, 2018 and December 31, 2017, the carrying value of this investment was \$22.3 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.

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Impairment of Real Estate and Finite-lived Intangible Assets — The Company periodically reviews the carrying amounts of its long-lived assets, including real estate held-for-use and held-for-sale, as well as 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 recorded at the lower of carrying amount or fair value less costs to sell.

Other Current Assets

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

	September 30, 2018	December 31, 2017
Loans, held-for-sale, net (A)	\$ —	\$ 147
Prepaid expenses	3,777	3,081
Deposits	8,402	3,469
Inventory	4,446	4,722
Derivative assets	569	—
Miscellaneous current assets, net	9,063	10,149
Other current assets	<u>\$ 26,257</u>	<u>\$ 21,568</u>

(A) During the nine months ended September 30, 2018, the Company recorded an impairment of \$0.2 million on a corporate loan.

Other Current Liabilities

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

	September 30, 2018	December 31, 2017
Security deposits payable	\$ 6,186	\$ 6,602
Accrued rent	3,532	2,160
Due to affiliates	—	1,786
Dividends payable	930	930
Miscellaneous current liabilities	3,998	11,118
Other current liabilities	<u>\$ 14,646</u>	<u>\$ 22,596</u>

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. 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 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

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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 currently has operating leases, including ground leases, for certain of its properties and leased equipment which are not recognized on the Consolidated Balance Sheets. In July 2018, the FASB issued ASU 2018-10 *Codification Improvements to Topic 842 Leases*, which provides 16 narrow scope amendments to ASC 842 including the rate implicit in the lease, impairment of the net investment in the lease, lessee reassessment of lease classification among other things. In July 2018 the FASB issued ASU 2018-11 *Leases (Topic 842): Targeted Improvements* which allows entities to not apply the new lease standard in the comparative periods presented in the financial statements in the year of adoption. The Company anticipates a significant increase to its non-current assets and non-current liabilities in order to record a right-of-use asset and a related lease liability, specifically as it relates to existing operating leases. There are also certain considerations related to internal control over financial reporting that are associated with implementing the new guidance under Topic 842. The Company is currently evaluating its control framework for lease accounting and identifying any changes that may need to be made in response to the new guidance. The Company has selected an information system application to centralize the tracking of and accounting for the Company's leases and is currently in the process of implementing that application. The Company will adopt the requirements of the new standard on January 1, 2019. The Company is working to quantify the impact, but is currently unable to estimate the impact on the Consolidated Financial Statements.

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

In August 2018, the FASB issued ASU 2018-15 *Intangibles-Goodwill and Other-Internal Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The standard requires a customer in a cloud computing arrangement (i.e., a hosting arrangement) that is a service contract to follow the internal-use software guidance in ASC 350-40 to determine which implementation costs to capitalize as assets or expense as incurred. That guidance requires certain costs incurred during the application development stage to be capitalized and other costs incurred during the preliminary project and post-implementation stages to be expensed as they are incurred. Capitalized implementation costs related to a hosting arrangement that is a service contract will be amortized over the term of the hosting arrangement, beginning when the module or component of the hosting arrangement is ready for its intended use. The effective date of the standard will be for annual periods beginning after December 15, 2019. Early adoption is permitted, including adoption in any interim period. Entities can either apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively. The Company is currently evaluating the new guidance to determine the impact it may have on its Consolidated Financial Statements.

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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 and a corresponding decrease to other current liabilities, and the same decreases are applied to the September 30, 2018 balances. The adjustment was due to the recognition of breakage on gift cards and gift certificates offered at the Company’s Traditional Golf properties that were 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). Also in accordance with 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 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).

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 and Entertainment Golf venues, including green fees, cart rentals, bay play, events and sales of food, beverages and merchandise.

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 Statements of Operations was as follows:

Consolidated Statement of Operations

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As reported	Balances under prior accounting	Effect of Change	As reported	Balances under prior accounting	Effect of Change
Revenues						
Golf operations	\$ 68,928	\$ 61,499	\$ 7,429	\$ 191,632	\$ 173,417	\$ 18,215
Operating Costs						
Operating expenses	\$ 70,330	\$ 62,901	\$ 7,429	\$ 194,751	\$ 176,536	\$ 18,215

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

	Three Months Ended September 30, 2018					Nine Months Ended September 30, 2018				
	Public golf properties	Private golf properties	Managed golf properties	Ent. golf venues	Total	Public golf properties	Private golf properties	Managed golf properties	Ent. golf venues	Total
Golf operations	34,689	25,362	8,167	710	68,928	91,668	78,202	20,197	1,565	191,632
Sales of food and beverages	10,757	6,904	—	830	18,491	30,271	21,398	—	1,782	53,451
Total revenues	\$ 45,446	\$ 32,266	\$ 8,167	\$ 1,540	\$ 87,419	\$ 121,939	\$ 99,600	\$ 20,197	\$ 3,347	\$ 245,083

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4. SEGMENT REPORTING

The Company currently has three reportable segments: (i) Traditional Golf properties, (ii) Entertainment Golf venues and (iii) corporate. The chief operating decision maker (“CODM”) for each segment is our Chief Executive Officer, who reviews discrete financial information for each reportable segment to manage the Company, including resource allocation and performance assessment.

The Company's Traditional Golf business is one of the largest owners and operators of golf properties in the United States. As of September 30, 2018, the Company owned, leased or managed 72 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 corporate segment consists primarily of investments in loans and securities, interest income on short-term investments, general and administrative expenses as a public company, 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).

Beginning as of the Company's second fiscal quarter in 2018, the Company changed its reportable segments to reflect the manner in which our CODM manages our businesses, including resource allocation and performance assessment. As a result, the Debt Investments segment was combined with the corporate segment, to reflect the ongoing reduction in size of the Debt Investments segment.

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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	Corporate	Total
Nine Months Ended September 30, 2018				
Revenues				
Golf operations	\$ 190,067	\$ 1,565	\$ —	\$ 191,632
Sales of food and beverages	51,669	1,782	—	53,451
Total revenues	241,736	3,347	—	245,083
Operating costs				
Operating expenses (A)	191,152	3,599	—	194,751
Cost of sales - food and beverages	14,981	432	—	15,413
General and administrative expense	12,781	4,515	9,448	26,744
General and administrative expense - acquisition and transaction expenses (B)	706	2,024	137	2,867
Depreciation and amortization	13,198	1,148	12	14,358
Pre-opening costs (C)	—	2,048	—	2,048
Impairment	5,498	—	147	5,645
Realized and unrealized (gain) on investments	(283)	—	—	(283)
Total operating costs	238,033	13,766	9,744	261,543
Operating income (loss)	3,703	(10,419)	(9,744)	(16,460)
Other income (expenses)				
Interest and investment income	144	196	1,042	1,382
Interest expense (D)	(12,149)	—	(1,661)	(13,810)
Capitalized interest (D)	580	—	290	870
Other (loss) income, net	(8,715)	—	1,558	(7,157)
Total other income (expenses)	(20,140)	196	1,229	(18,715)
Income tax expense	—	—	—	—
Net loss	(16,437)	(10,223)	(8,515)	(35,175)
Preferred dividends	—	—	(4,185)	(4,185)
Loss applicable to common stockholders	\$ (16,437)	\$ (10,223)	\$ (12,700)	\$ (39,360)

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Summary segment financial data (continued).

	Traditional Golf	Entertainment Golf	Corporate	Total
Three Months Ended September 30, 2018				
Revenues				
Golf operations	\$ 68,218	\$ 710	\$ —	\$ 68,928
Sales of food and beverages	17,661	830	—	18,491
Total revenues	85,879	1,540	—	87,419
Operating costs				
Operating expenses (A)	68,565	1,765	—	70,330
Cost of sales - food and beverages	4,976	204	—	5,180
General and administrative expense	4,313	1,878	3,189	9,380
General and administrative expense - acquisition and transaction expenses (B)	199	570	—	769
Depreciation and amortization	3,877	614	4	4,495
Pre-opening costs (C)	—	245	—	245
Impairment	4,172	—	—	4,172
Realized and unrealized loss on investments	48	—	—	48
Total operating costs	86,150	5,276	3,193	94,619
Operating loss	(271)	(3,736)	(3,193)	(7,200)
Other income (expenses)				
Interest and investment income	48	85	334	467
Interest expense (D)	(4,050)	—	(597)	(4,647)
Capitalized interest (D)	238	—	119	357
Other (loss) income, net	(3,548)	—	496	(3,052)
Total other income (expenses)	(7,312)	85	352	(6,875)
Income tax expense	—	—	—	—
Net loss	(7,583)	(3,651)	(2,841)	(14,075)
Preferred dividends	—	—	(1,395)	(1,395)
Loss applicable to common stockholders	\$ (7,583)	\$ (3,651)	\$ (4,236)	\$ (15,470)

	Traditional Golf	Entertainment Golf	Corporate (E)	Total
September 30, 2018				
Total assets	300,404	99,470	86,891	486,765
Total liabilities	279,775	10,097	57,925	347,797
Preferred stock	—	—	61,583	61,583
Equity attributable to common stockholders	\$ 20,629	\$ 89,373	\$ (32,617)	\$ 77,385

Additions to property and equipment (including capital leases) during the nine months ended September 30, 2018	\$ 11,651	\$ 25,689	\$ —	\$ 37,340
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Summary segment financial data (continued).

	Traditional Golf	Entertainment Golf	Corporate (F)	Total
Nine Months Ended September 30, 2017				
Revenues				
Golf operations	\$ 168,969	\$ —	\$ —	\$ 168,969
Sales of food and beverages	53,223	—	—	53,223
Total revenues	222,192	—	—	222,192
Operating costs				
Operating expenses (A)	175,920	—	—	175,920
Cost of sales - food and beverages	15,762	—	—	15,762
General and administrative expense	12,418	53	5,412	17,883
General and administrative expense - acquisition and transaction expenses (B)	558	4,122	171	4,851
Management fee to affiliate	—	—	8,032	8,032
Depreciation and amortization	17,936	16	—	17,952
Pre-opening costs (C)	—	191	—	191
Impairment	—	—	60	60
Realized and unrealized loss on investments	317	—	6,044	6,361
Total operating costs	222,911	4,382	19,719	247,012
Operating loss	(719)	(4,382)	(19,719)	(24,820)
Other income (expenses)				
Interest and investment income	114	—	22,587	22,701
Interest expense (D)	(11,575)	—	(3,835)	(15,410)
Capitalized interest (D)	75	—	—	75
Other (loss) income, net	(1,044)	—	1,416	372
Total other income (expenses)	(12,430)	—	20,168	7,738
Income tax expense	—	—	1,047	1,047
Net loss	(13,149)	(4,382)	(598)	(18,129)
Preferred dividends	—	—	(4,185)	(4,185)
Loss applicable to common stockholders	\$ (13,149)	\$ (4,382)	\$ (4,783)	\$ (22,314)

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Summary segment financial data (continued).

	Traditional Golf	Entertainment Golf	Corporate (F)	Total
Three Months Ended September 30, 2017				
Revenues				
Golf operations	\$ 62,034	\$ —	\$ —	\$ 62,034
Sales of food and beverages	19,657	—	—	19,657
Total revenues	81,691	—	—	81,691
Operating costs				
Operating expenses (A)	63,384	—	—	63,384
Cost of sales - food and beverages	5,721	—	—	5,721
General and administrative expense	4,119	10	2,128	6,257
General and administrative expense - acquisition and transaction expenses (B)	72	1,804	55	1,931
Management fee to affiliate	—	—	2,678	2,678
Depreciation and amortization	6,171	16	—	6,187
Pre-opening costs (C)	—	141	—	141
Impairment	—	—	28	28
Realized and unrealized loss (gain) on investments	32	—	(347)	(315)
Total operating costs	79,499	1,971	4,542	86,012
Operating income (loss)	2,192	(1,971)	(4,542)	(4,321)
Other income (expenses)				
Interest and investment income	42	—	8,376	8,418
Interest expense (D)	(3,905)	—	(940)	(4,845)
Capitalized interest (D)	75	—	—	75
Other (loss) income, net	(211)	—	413	202
Total other income (expenses)	(3,999)	—	7,849	3,850
Income tax benefit	—	—	(2)	(2)
Net loss (income)	(1,807)	(1,971)	3,309	(469)
Preferred dividends	—	—	(1,395)	(1,395)
(Loss) Income applicable to common stockholders	\$ (1,807)	\$ (1,971)	\$ 1,914	\$ (1,864)

(A) Operating expenses include rental expenses recorded under operating leases for carts and equipment in the amount of \$0.5 million and \$1.6 million for the three and nine months ended September 30, 2018, respectively, and \$0.7 million and \$2.3 million for the three and nine months ended September 30, 2017, respectively. Operating expenses also include amortization of favorable and unfavorable lease intangibles in the amount of \$1.0 million and \$3.1 million for the three and nine months ended September 30, 2018, respectively, and \$1.0 million and \$3.1 million for the three and nine months ended September 30, 2017, respectively.

(B) Acquisition and transaction expenses include costs related to completed and potential acquisitions and transactions, which may include advisory, legal, accounting 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 includes the accretion of membership deposit liabilities in the amount of \$1.7 million and \$5.1 million for the three and nine months ended September 30, 2018, respectively, and \$1.6 million and \$4.8 million for the three and nine months ended September 30, 2017, respectively. Interest expense and capitalized interest total to interest expense, net on the Consolidated Statements of Operations.

(E) Total assets in the corporate segment include an equity method investment in the amount of \$22.3 million as of September 30, 2018 recorded in other investments on the Consolidated Balance Sheets. See Note 2 for additional information.

(F) The Debt Investments segment and corporate segment as reported previously are combined to conform to the current period's presentation.

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5. PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

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

	September 30, 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	71,697	(26,318)	45,379	154,769	(52,636)	102,133
Furniture, fixtures and equipment	26,944	(16,581)	10,363	33,109	(23,451)	9,658
Capital leases - equipment	28,624	(11,832)	16,792	24,949	(8,649)	16,300
Construction in progress	23,943	—	23,943	24,916	—	24,916
Total Property and Equipment	\$ 156,313	\$ (54,731)	\$ 101,582	\$ 325,994	\$ (84,736)	\$ 241,258

On March 7, 2018, the Company announced it was actively pursuing 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, net" and "Real estate liabilities, held-for-sale," respectively. Upon reclassification, the Company assessed the real estate assets, held-for-sale and determined that the carrying value of one property exceeded the fair value less anticipated costs to sell. In March 2018, the Company recognized an impairment loss totaling approximately \$1.3 million. 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.

The real estate assets, held-for-sale, net are reported at a carrying value of \$158.6 million and include \$83.2 million of land, \$72.2 million of buildings and improvements, \$4.6 million of furniture, fixtures and equipment, and \$2.8 million of other related assets, partially offset by accumulated impairment. The real estate liabilities, held-for-sale are reported at a carrying value of \$5.1 million and include property liabilities to be assumed, primarily prepaid membership dues. In September 2018, the Company reassessed the real estate assets, held-for-sale, net and determined that the carrying value of two properties exceeded the fair value less anticipated costs to sell. As a result, the Company recognized an impairment loss and recorded accumulated impairment totaling approximately \$4.2 million. The fair value measurements were based on executed purchase agreements. The significant inputs used to value these real estate investments fall within Level 3 for fair value reporting.

In July 2018, the Company consummated on the sale of a private golf property in Georgia for a sale price of \$3.5 million resulting in net proceeds of \$3.2 million after adjusting for liabilities assumed by the buyer, primarily related to prepaid dues. This resulted in a net loss on sale of \$0.1 million based on the carrying value of net assets.

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6. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company's intangible assets:

	September 30, 2018			December 31, 2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (111)	\$ 589	\$ 700	\$ (93)	\$ 607
Leasehold intangibles (A)	47,066	(19,651)	27,415	48,107	(16,716)	31,391
Management contracts	33,725	(15,011)	18,714	35,111	(13,468)	21,643
Internally-developed software	1,692	(800)	892	800	(640)	160
Membership base	5,236	(3,553)	1,683	5,236	(2,992)	2,244
Nonamortizable liquor licenses	828	—	828	1,231	—	1,231
Total Intangibles	\$ 89,247	\$ (39,126)	\$ 50,121	\$ 91,185	\$ (33,909)	\$ 57,276

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

7. DEBT OBLIGATIONS

The following table presents certain information regarding the Company's debt obligations at September 30, 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
Credit Facilities and Capital Leases								
Traditional Golf term loan (C)(D)	June 2016	\$ 102,000	\$ 100,934	Jul 2019	LIBOR+4.70%	7.92%	0.7	\$ 102,000
Vineyard II	Dec 1993	200	200	Dec 2043	2.20%	2.20%	25.2	200
Capital leases (Equipment)	Jun 2014 - Sep 2018	16,825	16,825	Oct 2018 - Dec 2023	3.00% to 16.16%	6.72%	3.3	—
		119,025	117,959			7.74%	1.2	102,200
Current portion of credit facilities		102,000	100,934					
Current portion of obligations under capital leases		5,443	5,443					
Total current portion of credit facilities and obligations under capital leases		107,443	106,377					
Credit facilities and obligations under capital leases - noncurrent		11,582	11,582					
Corporate								
Junior subordinated notes payable (E)	Mar 2006	51,004	51,202	Apr 2035	LIBOR+2.25%	4.56%	16.6	51,004
Total debt obligations		\$ 170,029	\$ 169,161			6.78%	5.8	\$ 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 \$1.1 million as of September 30, 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%.

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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 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 September 30, 2018.

8. REAL ESTATE SECURITIES

The following is a summary of the Company's real estate securities at September 30, 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	September 30, 2018												
	Outstanding Face Amount	Amortized Cost Basis			Gross Unrealized			Number of Securities	Weighted Average				
		Before Impairment	Other-Than-Temporary Impairment	After Impairment	Gains	Losses	Carrying Value (A)		Rating (B)	Coupon	Yield	Life (Years) (C)	Principal Subordination (D)
ABS - Non-Agency RMBS	\$ 4,000	\$ 2,552	\$ (1,521)	\$ 1,031	\$ 2,171	\$ —	\$ 3,202	1	CCC	2.61%	26.65%	3.1	36.6%
Total Securities, Available for Sale (E)	\$ 4,000	\$ 2,552	\$ (1,521)	\$ 1,031	\$ 2,171	\$ —	\$ 3,202	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.

The Company had no securities in an unrealized loss position as of September 30, 2018. The Company has no activity related to credit losses on debt securities for the nine months ended September 30, 2018.

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9. DERIVATIVES

The Company's derivative instrument is an interest rate cap with a fair value of \$0.6 million and \$0.3 million as of September 30, 2018 and December 31, 2017, respectively. The interest rate cap is recorded within other current assets as of September 30, 2018 and other assets as of December 31, 2017 on the Consolidated Balance Sheets. The Company had no derivative liabilities as of both September 30, 2018 and December 31, 2017.

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

	Income Statement Location	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Non-hedge derivatives					
Unrealized loss (gain) on interest rate derivatives	Realized and unrealized (gain) loss on investments	\$ 48	\$ 32	\$ (283)	\$ 1,000
Unrealized loss recognized related to TBAs	Realized and unrealized (gain) loss on investments	—	1,770	—	—
Realized loss on settlement of TBAs	Realized and unrealized (gain) loss on investments	—	228	—	4,000

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 September 30, 2018:

	Carrying Value	Estimated Fair Value	Fair Value Method (A)
Assets			
Real estate securities, available-for-sale	\$ 3,202	\$ 3,202	Pricing models - Level 3
Cash and cash equivalents	99,389	99,389	
Restricted cash, current and noncurrent	5,188	5,188	
Non-hedge derivative assets (B)	569	569	Counterparty quotations - Level 2
Liabilities			
Credit facilities - Traditional Golf term loan	100,934	103,076	Pricing models - Level 3
Junior subordinated notes payable	51,202	30,477	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).

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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 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 September 30, 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	\$ 1,031	\$ 3,202	12.0%	5.8%	2.0%	4

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 nine months ended September 30, 2018 as follows:

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	ABS - Non-Agency RMBS	
Balance at December 31, 2017	\$	2,294
Total gains (losses) (A)		
Included in other comprehensive income (loss)		801
Amortization included in interest income		175
Purchases, sales and repayments (A)		
Proceeds		(68)
Balance at September 30, 2018	\$	3,202

(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 nine months ended September 30, 2018. There were no transfers into or out of Level 3 during the nine months ended September 30, 2018.

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. Stock Options

The following is a summary of the changes in the Company's outstanding options for the nine months ended September 30, 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 September 30, 2018	5,010,576	\$ 2.55	4.84
Exercisable at September 30, 2018	2,705,586	\$ 2.64	4.89

As of September 30, 2018, the Company's outstanding options were summarized as follows:

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	Issued in 2011 and thereafter
Held by the former Manager	2,705,253
Issued to the former Manager and subsequently transferred to certain of the Manager's employees (A)	2,304,990
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. In both February 2017 and April 2018, the former Manager issued 1,152,495 options to certain employees formerly employed by the Manager as part of their compensation.

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. The fair value of the options was determined using the following assumptions:

Option Valuation Date	January 1, 2018	April 10, 2018
Expected Volatility	39.73%	35.66%
Expected Dividend Yield	0.00%	0.00%
Expected Remaining Term	3.0 - 6.6 years	2.7 - 6.3 years
Risk-Free Rate	2.16 - 2.29%	2.68 - 2.82%
Fair Value at Valuation Date	\$ 4,272	\$ 3,558

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 \$0.5 million and \$1.3 million during the three and nine months ended September 30, 2018, respectively, 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 \$6.5 million as of September 30, 2018 and will be expensed over a weighted average of 3.9 years.

B. Drive Shack Inc. 2018 Omnibus Incentive Plan

On May 25, 2018, the shareholders of the Company approved the Drive Shack Inc. 2018 Omnibus Incentive Plan (the "2018 Plan") which provides for the issuance of equity-based awards in various forms to eligible participants. The 2018 Plan allows for 6,697,710 shares of common stock to be available for grants of equity awards, subject to an annual limitation of 1,339,542 (with any shares not issued or granted in a specific year being added to such number in the subsequent year).

On August 22, 2018, the Company granted an aggregate of 26,178 Restricted Stock Units ("RSUs") that are subject to a one year vesting period. The fair value at grant date was \$5.73 per share. Stock-based compensation expense is recognized on a straight-line basis through the vesting date of the RSUs. Stock-based compensation expense related to the RSUs was less than \$0.1 million during both the three and nine months ended September 30, 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 RSUs was \$0.1 million as of September 30, 2018 and will be expensed over a weighted average of 0.9 years.

C. Dividends

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.

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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 were paid on July 31, 2018.

On August 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 August 1, 2018 and ending October 31, 2018. Dividends totaling \$1.4 million were paid on October 31, 2018.

D. Earnings Per Share

The following table shows the Company's basic and diluted earnings per share ("EPS"):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Numerator for basic and diluted earnings per share:				
Loss from continuing operations after preferred dividends and noncontrolling interests	\$ (15,470)	\$ (1,864)	\$ (39,360)	\$ (22,314)
Loss Applicable to Common Stockholders	<u>\$ (15,470)</u>	<u>\$ (1,864)</u>	<u>\$ (39,360)</u>	<u>\$ (22,314)</u>
Denominator:				
Denominator for basic earnings per share - weighted average shares	66,992,322	66,932,744	66,982,233	66,883,291
Effect of dilutive securities				
Options	—	—	—	—
RSUs	—	—	—	—
Denominator for diluted earnings per share - adjusted weighted average shares	<u>66,992,322</u>	<u>66,932,744</u>	<u>66,982,233</u>	<u>66,883,291</u>
Basic earnings per share:				
Loss from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	\$ (0.23)	\$ (0.03)	\$ (0.59)	\$ (0.33)
Loss Applicable to Common Stock, per share	<u>\$ (0.23)</u>	<u>\$ (0.03)</u>	<u>\$ (0.59)</u>	<u>\$ (0.33)</u>
Diluted earnings per share:				
Loss from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	\$ (0.23)	\$ (0.03)	\$ (0.59)	\$ (0.33)
Loss Applicable to Common Stock, per share	<u>\$ (0.23)</u>	<u>\$ (0.03)</u>	<u>\$ (0.59)</u>	<u>\$ (0.33)</u>

The Company's dilutive securities are its outstanding stock options and RSUs. During both the three and nine months ended September 30, 2018, the Company had zero antidilutive options. During the three and nine months ended September 30, 2017, the Company had 566,894 and 269,311 antidilutive options, respectively. During the three and nine months ended September 30, 2018 based on the treasury stock method, the Company had 3,004,777 and 2,804,451 potentially dilutive securities, respectively, which were excluded due to the Company's loss position. During the three and nine months ended September 30, 2017 based on the treasury stock method, the Company had 1,180,858 and 1,556,898 potentially dilutive securities, respectively, which were excluded due to the Company's loss position.

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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 related to 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 less than \$0.1 million and \$0.4 million in costs for Transition Services during the three and nine months ended September 30, 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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Management fees	\$ —	\$ 2,553	\$ —	\$ 7,657
Expense reimbursement to the Manager	—	125	—	375
Incentive compensation	—	—	—	—
Total Management fee to affiliate	\$ —	\$ 2,678	\$ —	\$ 8,032

At September 30, 2018, Fortress, through its affiliates, and principals of Fortress, owned 7.3 million shares of the Company's common stock and Fortress, through its affiliates, had options relating to an additional 2.7 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 incurred less than \$0.1 million for the nine months ended September 30, 2018. The Company paid the aircraft operator market rates for the charters.

The Company leases corporate office space from an affiliate of a member of our Board of Directors. The Company has accrued \$0.7 million in rent expense for the nine months ended September 30, 2018, which represents market rates for the office space.

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 subsequently entered into a legal dispute related to this golf property. In June 2018, the Company accrued an additional \$6.6 million for a total of \$7.4 million to settle this legal dispute, which was recorded as accounts payable and accrued expenses in the Consolidated Balance Sheet. In July 2018, the Company settled the dispute for \$7.4 million, with \$5.2 million payable immediately and \$2.2 million payable in six quarterly installments. The Company paid the first installment of \$0.4 million in September 2018, and the final payment is due in December 2019.

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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, personal injury 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 September 30, 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.

In July 2017, the Company entered into a ground lease in West Palm Beach, Florida. During August 2018, 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 five 5-year renewal options.

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

In June 2018, the lease on a golf property in California was terminated and the Company entered into a management agreement on this property. The management agreement is for a term of 10 years.

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

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 \$5.3 million in property repair costs related to Hurricane Irma of which \$1.2 million was incurred in 2018. The Company expects to incur an additional \$0.2 to \$0.3 million in property repair costs in 2018. The Company was reimbursed \$2.0 million and \$3.0 million by the insurer in 2017 and 2018, respectively. Property repair 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 was zero for both the three and nine months ended September 30, 2018. The Company had a minimal income tax benefit for the three months ended September 30, 2017 and an income tax provision of \$1.0 million for the nine months ended September 30, 2017.

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 September 30, 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

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2018

(dollars in tables in thousands, except share data)

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.

15. SUBSEQUENT EVENTS

These Consolidated Financial Statements include a discussion of material events, if any, that have occurred subsequent to September 30, 2018 through the issuance of these Consolidated Financial Statements.

On November 7, 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 November 1, 2018 and ending January 31, 2019. Dividends totaling \$1.4 million will be paid on January 31, 2019 to stockholders of record on January 2, 2019.

On November 7, 2018, the Board appointed Mr. Kenneth A. May as Chief Executive Officer and President of the Company and as a member of the Board, effective as of November 12, 2018 (the "Effective Date"). Mr. May will serve as a Class I director until the 2021 Annual Meeting of Stockholders, and until his successor is duly elected and qualified. The Board has also appointed Mr. David M. Hammarley as Chief Financial Officer of the Company, effective as of the Effective Date.

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. We conduct our business through the following segments: (i) Traditional Golf properties, (ii) Entertainment Golf venues and (iii) corporate.

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 September 30, 2018, we owned, leased or managed 72 properties across 12 states. American Golf and its dedicated employees are focused on delivering lasting experiences for our customers, including our more than 60,000 members, who played over 2.9 million rounds at our properties during the nine months ended September 30, 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.

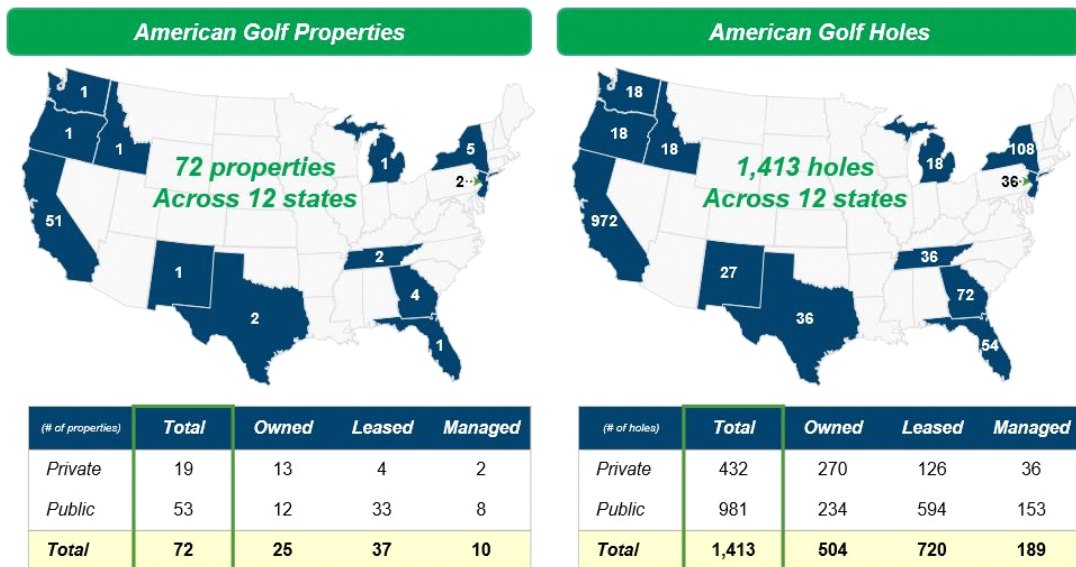
Traditional Golf operations are organized into three principal categories: (1) public properties, (2) private properties and (3) managed properties.

Public Properties. Our 45 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 17 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 10 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 September 30, 2018:



Entertainment Golf | Drive Shack

Drive Shack is an entertainment company that combines golf, competition, dining and fun. On April 7, 2018, we opened our inaugural venue in Orlando, Florida. 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, are able to spectate from one of Drive Shack's restaurant or lounge areas.

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 investments in loans and securities, optimize our Traditional Golf business, including sales of owned properties, and obtain additional capital. We have substantially monetized the remaining loans and securities. 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 opened our inaugural venue in Orlando, Florida on April 7, 2018 and are in the construction and development phase, as well as in the process of exploring sites for additional Entertainment Golf venues. 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 an impact on the markets in which we currently or will in the future 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 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 to materially change in the future. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

The following tables summarize the changes in our results of operations for the three and nine months ended September 30, 2018 and 2017 (dollars in thousands):

	Three Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Revenues				
Golf operations	\$ 68,928	\$ 62,034	\$ 6,894	11.1 %
Sales of food and beverages	18,491	19,657	(1,166)	(5.9)%
Total revenues	87,419	81,691	5,728	7.0 %
Operating costs				
Operating expenses	70,330	63,384	6,946	11.0 %
Cost of sales - food and beverages	5,180	5,721	(541)	(9.5)%
General and administrative expense	10,149	8,188	1,961	23.9 %
Management fee to affiliate	—	2,678	(2,678)	(100.0)%
Depreciation and amortization	4,495	6,187	(1,692)	(27.3)%
Pre-opening costs	245	141	104	73.8 %
Impairment	4,172	28	4,144	N.M.
Realized and unrealized loss (gain) on investments	48	(315)	(363)	(115.2)%
Total operating costs	94,619	86,012	8,607	10.0 %
Operating loss	(7,200)	(4,321)	2,879	66.6 %
Other income (expenses)				
Interest and investment income	467	8,418	(7,951)	(94.5)%
Interest expense, net	(4,290)	(4,770)	(480)	(10.1)%
Other (loss) income, net	(3,052)	202	(3,254)	N.M.
Total other income (expenses)	(6,875)	3,850	(10,725)	(278.6)%
Loss before income tax	\$ (14,075)	\$ (471)	\$ 13,604	N.M.

N.M. - Not meaningful

	Nine Months Ended September 30,		Increase (Decrease)	
	2018	2017	Amount	%
Revenues				
Golf operations	\$ 191,632	\$ 168,969	\$ 22,663	13.4 %
Sales of food and beverages	53,451	53,223	228	0.4 %
Total revenues	245,083	222,192	22,891	10.3 %
Operating costs				
Operating expenses	194,751	175,920	18,831	10.7 %
Cost of sales - food and beverages	15,413	15,762	(349)	(2.2)%
General and administrative expense	29,611	22,734	6,877	30.2 %
Management fee to affiliate	—	8,032	(8,032)	(100.0)%
Depreciation and amortization	14,358	17,952	(3,594)	(20.0)%
Pre-opening costs	2,048	191	1,857	N.M.
Impairment	5,645	60	5,585	N.M.
Realized and unrealized (gain) loss on investments	(283)	6,361	6,644	104.4 %
Total operating costs	261,543	247,012	14,531	5.9 %
Operating loss	(16,460)	(24,820)	(8,360)	(33.7)%
Other income (expenses)				
Interest and investment income	1,382	22,701	(21,319)	(93.9)%
Interest expense, net	(12,940)	(15,335)	(2,395)	(15.6)%
Other (loss) income, net	(7,157)	372	(7,529)	N.M.
Total other income (expenses)	(18,715)	7,738	(26,453)	(341.9)%
Loss before income tax	\$ (35,175)	\$ (17,082)	\$ 18,093	105.9 %

N.M. - Not meaningful

Revenues from Golf Operations

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

Revenues from golf operations increased by \$6.9 million primarily due to increases of: (i) \$7.4 million in management contract reimbursements reported under the new revenue standard adopted on January 1, 2018, (ii) \$2.3 million of improvements in the Traditional Golf business including member growth and range revenue, (iii) \$0.7 million related to our Entertainment Golf venue opened in Orlando, Florida in 2018, partially offset by decreases of (iv) \$3.0 million related to fewer Traditional Golf properties owned or operated in 2018, and (v) \$0.5 million related to unfavorable weather conditions primarily in California.

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

Revenues from golf operations increased by \$22.7 million primarily due to increases of: (i) \$18.2 million due to management contract reimbursements reported under the new revenue standard adopted on January 1, 2018, (ii) \$7.6 million of improvements in the Traditional Golf business including member growth, green fee, range and cart rental revenue, (iii) \$1.6 million related to our Entertainment Golf venue opened in Orlando, Florida in 2018, partially offset by a decrease of \$4.7 million related to fewer Traditional Golf properties owned or operated in 2018.

Sales of Food and Beverages

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

Sales of food and beverages decreased by \$1.2 million primarily due to decreases of: (i) \$1.5 million due to fewer Traditional Golf properties owned or operated in 2018, (ii) \$0.5 million related to a reduction in events at Traditional Golf properties, partially offset by \$0.8 million in sales at our Entertainment Golf venue opened in Orlando, Florida in 2018.

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

Sales of food and beverages increased by \$0.2 million primarily due an increase of \$1.8 million related to our Entertainment Golf venue opened in Orlando, Florida in 2018, partially offset by a decrease of \$1.6 million due to fewer Traditional Golf properties owned or operated in 2018.

Operating Expenses

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

Operating expenses increased by \$6.9 million primarily due to increases of: (i) \$7.4 million in management contract expenses reported under the new revenue standard adopted on January 1, 2018, (ii) \$1.8 million related to our Entertainment Golf venue opened in Orlando, Florida in 2018, (iii) \$2.1 million in the Traditional Golf business primarily related to increased water usage and increased hourly wages, partially offset by a decrease of \$4.4 million due to fewer Traditional Golf properties owned or operated in 2018.

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

Operating expenses increased by \$18.8 million primarily due to increases of: (i) \$18.2 million in management contract expenses reported under the new revenue standard adopted on January 1, 2018, (ii) \$3.6 million related to our Entertainment Golf venue opened in Orlando, Florida in 2018, (iii) \$6.0 million in the Traditional Golf business including increased water usage, property repairs, property taxes and insurance, (iv) \$2.9 million in the Traditional Golf Business including increased hourly wages and benefits, partially offset by decreases of (v) \$7.3 million due to fewer Traditional Golf properties owned or operated in 2018 and (v) \$4.6 million of net insurance recoveries at one Traditional Golf property.

Cost of Sales - Food and Beverages

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

Cost of sales - food and beverages decreased by \$0.5 million primarily due to fewer Traditional Golf properties owned or operated in 2018 partially offset by our Entertainment Golf venue opened in Orlando, Florida in 2018.

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

Cost of sales - food and beverages decreased by \$0.3 million primarily due to fewer Traditional Golf properties owned or operated in 2018 partially offset by our Entertainment Golf venue opened in Orlando, Florida in 2018.

General and Administrative Expense (including Acquisition and Transaction Expense)

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

General and administrative expense increased by \$2.0 million primarily due to payroll-related expenses as a result of the Internalization effective January 1, 2018.

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

General and administrative expense increased by \$6.9 million primarily due to payroll-related expenses as a result of the Internalization effective January 1, 2018.

Management Fee to Affiliate

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

Management fee to affiliate decreased by \$2.7 million due to the Internalization effective January 1, 2018.

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

Management fee to affiliate decreased by \$8.0 million due to the Internalization effective January 1, 2018.

Depreciation and Amortization

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

Depreciation and amortization decreased by \$1.7 million primarily due to discontinuation of depreciation on the Traditional Golf real estate assets classified as held-for-sale in March 2018, partially offset by depreciation on assets placed into service at our Entertainment Golf venue in Orlando, Florida.

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

Depreciation and amortization decreased by \$3.6 million primarily due to discontinuation of depreciation on the Traditional Golf real estate assets classified as held-for-sale in March 2018, partially offset by depreciation on assets placed into service at our Entertainment Golf venue in Orlando, Florida.

Pre-Opening Costs

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

There was no significant change in pre-opening costs.

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

Pre-opening costs increased by \$1.9 million primarily due to: (i) additional expenses incurred, such as payroll and related costs, prior to the opening of the Entertainment Golf venue in Orlando in April 2018 and (ii) rent expense for two additional Entertainment Golf venues.

Impairment

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

Impairment increased by \$4.1 million primarily due to impairment on two Traditional Golf properties that were reclassified as held-for-sale in March 2018.

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

Impairment increased by \$5.6 million primarily due to impairment on three Traditional Golf properties that were reclassified as held-for-sale in March 2018.

Realized and Unrealized (Gain) Loss on Investments

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

Realized and unrealized (gain) loss on investments decreased by \$0.4 million. During the three months ended September 30, 2018, we recorded an unrealized loss of \$0.1 million on the mark-to-market value of derivatives. During the three months ended September 30, 2017, we recorded an unrealized loss of \$1.8 million on the mark-to-market on the value of derivatives and a realized loss of \$0.2 million on the settlement of derivatives, offset by a gain of \$2.3 million on the settlement of Agency RMBS.

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

Realized and unrealized (gain) loss on investments increased by \$6.6 million. During the nine months ended September 30, 2018, we recorded an unrealized gain of \$0.3 million on the mark-to-market value of derivatives. During the nine months ended September 30, 2017, we recorded a net realized loss of \$0.4 million on the sale of agency RMBS, an unrealized loss of \$0.6 million on the mark-to-market of agency RMBS, a realized loss of \$4.7 million on the sale of derivatives and an unrealized loss of \$0.7 million on the mark-to-market on the value of derivatives.

Interest and Investment Income

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

Interest and investment income decreased by \$8.0 million primarily due to decreases of: (i) \$1.1 million interest income earned from agency RMBS which were sold in August 2017, (ii) \$5.5 million on the accretion of discount recognized on a resorts-related loan, and (iii) \$1.4 million of paid-in-kind ("PIK") interest earned on a resorts-related loan due to the full repayment in August 2017.

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

Interest and investment income decreased by \$21.3 million primarily due to decreases of: (i) \$7.9 million in interest income earned from agency RMBS which were sold in August 2017, (ii) \$5.5 million on the accretion of discount recognized on a resorts-related loan, (iii) \$8.5 million of PIK interest earned on a resorts-related loan due to the full repayment in August 2017, partially offset by (iii) \$0.6 million in interest earned on overnight cash deposits.

Interest Expense, Net

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

Interest expense, net decreased by \$0.5 million primarily due to a decrease in interest expense related to repurchase agreements on agency RMBS which were repaid in August 2017.

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

Interest expense, net decreased by \$2.4 million primarily due to a decrease in interest expense related to repurchase agreements on agency RMBS which were repaid in August 2017.

Other (Loss) Income, Net

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

Other (loss) income, net decreased by \$3.3 million primarily related to the disposal of assets in connection with a Traditional Golf lease termination.

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

Other (loss) income, net decreased by \$7.5 million primarily due to settlement of a legal dispute on a Traditional Golf property and the disposal of assets in connection with Traditional Golf lease terminations.

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 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 and Entertainment Golf businesses, plus (ii) the net cash flows from our security investments, including principal and sales proceeds, less (iii) Traditional Golf and Entertainment Golf operating expenses, management fees, professional fees, insurance and other expenses, less (iv) employee wage and benefit expenses, less (v) interest on the junior subordinated notes payable and less (vi) preferred dividends.

Our cash flows provided by operations differs from our net income (loss) due to these primary factors: (i) accretion of discount 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) other-than-temporary impairment on our 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 real estate debt investments and golf-related real estate and operations. The Company has paid preferred dividends of \$4.2 million thus far in fiscal year 2018, and our board of directors elected not to declare common stock dividends in the first nine months of fiscal year 2018 to retain capital for growth. For the nine months ended September 30, 2018, the Company reported net cash used in operating activities of \$22.1 million, net cash used in investing activities of \$41.6 million, net cash used in financing activities of \$5.4 million, and cash and cash equivalents of \$99.4 million as of September 30, 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 September 30, 2018, we had \$99.4 million of available cash, including \$7.9 million for the Traditional Golf business. On August 2, 2018, we declared a quarterly preferred dividend of \$1.4 million which was paid on October 31, 2018.

Short-term liquidity requirements – As of September 30, 2018, we expect our short-term liquidity requirements to include a total of approximately \$75.0 to \$85.0 million of capital expenditures for both our Drive Shack venues and Traditional Golf properties.

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 September 30, 2018 (gross of \$0.9 million of discounts) had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
Period from October 1, 2018 through December 31, 2018	\$ 1,089	\$ —	\$ 1,089
2019	107,552	—	107,552
2020	4,607	—	4,607
2021	3,294	—	3,294
2022	1,675	—	1,675
2023	608	—	608
Thereafter	200	51,004	51,204
Total	\$ 119,025	\$ 51,004	\$ 170,029

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.

Equity

Preferred Stock Dividends Paid

Declared for the three months 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
July 31, 2018	July 2018	\$ 0.609	\$ 0.503	\$ 0.523
October 31, 2018	October 2018	\$ 0.609	\$ 0.503	\$ 0.523

Accumulated Other Comprehensive Income

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 nine months ended September 30, 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 \$22.1 million for the nine months ended September 30, 2018 and \$15.0 million for the nine months ended September 30, 2017. Changes in operating cash flow activities are described below:

- Operating cash flows increased by:
 - \$1.8 million due to cash flows from operations from the first Entertainment Golf venue in Orlando
 - \$6.2 million due to lower management fees paid during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017, as a result of the Internalization;
 - \$2.1 million due to lower general and professional fees paid during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017;
 - \$1.3 million due to lower income taxes paid during the nine months ended September 30, 2018 compared to the nine months ended September 30, 2017; and
 - \$0.7 million due to higher interest earned on overnight cash deposits.

- Operating cash flows decreased by:
 - \$3.9 million in lower operating cash flows from Traditional Golf, primarily related to the legal dispute settled in July 2018;
 - \$7.4 million of payroll costs primarily due to the Internalization and increased employee hiring associated with the Entertainment Golf venue in Orlando; and
 - \$7.9 million in lower net interest proceeds primarily due to the sale of agency RMBS in August 2017.

Investing Activities

Investing activities used \$41.6 million and provided \$672.6 million during the nine months ended September 30, 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 property and equipment and repayments from loans and securities.

Financing Activities

Financing activities used \$5.4 million and \$615.7 million during the nine months ended September 30, 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

There have been no significant changes to our off-balance sheet arrangements as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 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. In addition, we had the material contractual obligations described in Note 13 Commitments and Contingencies in Part I, Item 1. "Financial Statements."

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.

Commodity Price Risk

We are exposed to market price fluctuation in food and beverage product prices and these fluctuations can materially impact our costs. There is no assurance that supply and demand factors such as disease or inclement weather will not cause the prices of the commodities used in our operations to fluctuate. Significant increases in the price of commodities could have a material impact on our operating results to the extent that such increases cannot be offset by menu price increases or other operating efficiencies.

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. The Company subsequently entered into a legal dispute related to this golf property and settled the dispute in July 2018. (see Part I, Item 1. "Financial Statements - Note 13 Commitments and Contingencies").

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 Traditional Golf properties, and attract golf rounds played, which could have an adverse effect on our business, financial condition and results of operations.

Our success depends on our ability to attract and retain members and other customers at our public and private Traditional Golf properties, attract golf rounds played and maintain or increase revenues generated from our Traditional Golf 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 at our Traditional Golf properties would have a material adverse effect on our business, financial condition and results of operations. If we cannot attract new members and other customers, retain our existing members and other customers, or maintain golf rounds played at our Traditional Golf properties, 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, and a curtailment of discretionary spending could reduce our revenues and results of operations and adversely affect our financial position. 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 negatively affect the sales volume and profitability of our memberships, services, food and beverages at our Traditional Golf properties and Entertainment Golf venues, and rounds played at our Traditional Golf properties.

In addition, during such periods of adverse economic conditions, we 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 Traditional and Entertainment Golf properties, any of which may result in, among other things, financial losses and decreased revenues.

Our expansion into new markets may present increased risks due to our unfamiliarity with the area.

We expect that a number of our Entertainment Golf venues will be located in areas where we have little or no meaningful operating experience. Those markets may have different competitive conditions, local regulatory requirements, consumer tastes and discretionary spending patterns than our existing markets, which may cause our new venues to be less successful than we expect. In addition, we intend to establish Entertainment Golf venues outside of the United States. In addition to the risks posed by new markets generally, the operating conditions in overseas markets may vary significantly from those we have experienced in the past, including in relation to consumer preferences, regulatory environment, currency risk, the presence and cooperation of suitable local partners and availability of vendors or commercial and physical infrastructure, among others. There is no guarantee that we will be successful in integrating these new Entertainment Golf venues into our operations, achieving market acceptance, operating these properties profitably, and maintaining compliance with the rapidly changing business and regulatory requirements of new markets. If we are unable to do so, we could suffer a material adverse effect on our business, financial condition and results of operations.

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 in our Traditional and Entertainment Golf segments.

Our Traditional and Entertainment Golf businesses are subject to unusual weather patterns and extreme weather events, such as heavy rains, prolonged snow accumulations, high winds, extended heat waves and drought, which could negatively affect the income generated by our properties.

The maintenance of satisfactory turf grass conditions on our Traditional 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 Traditional Golf properties 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 properties in such states (including, without limitation, economic and demographic changes in these areas), could have an adverse impact on our Traditional Golf segment which is vulnerable to all these factors.

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 September 30, 2018, we operated multiple Traditional 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 can affect our results of operations in the Traditional and Entertainment Golf businesses. Usage of Traditional Golf properties 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 Traditional Golf business to generate a disproportionate share of its annual revenue in the second and third quarters of each year. Accordingly, our Traditional 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. In addition, although we have not experienced a full year of operations in the Entertainment Golf business, we expect that our results could be significantly impacted on a season-to-season basis.

Our results of operations are subject to fluctuations due to the timing of new Entertainment Golf venue openings.

The timing of new Entertainment Golf venue openings may result in significant fluctuations in our quarterly performance. During the pre-opening phase, and the first three to six months of operations, we believe that labor and operating costs for a specific venue could be materially greater than such costs once the venue has reached a mature state, both in aggregate dollars and as a percentage of revenues. Additionally, a portion of a current fiscal year new venue capital expenditures is related to venues that are not expected

to open until the following fiscal year. Due to these substantial up-front financial requirements to open new venues, the investment risk related to any single venue may be much greater than that associated with other types of entertainment businesses.

Food safety incidents at our properties or in our industry or supply chain may adversely affect customer perception of our brands or industry and result in declines in sales and profits.

We cannot guarantee that our supply chain and food safety controls and training will be fully effective in preventing all food safety issues at our properties and venues, including any occurrences of foodborne illnesses such as salmonella, E. coli, Norovirus, or hepatitis A. Some foodborne illness incidents could be caused by third-party vendors and distributors outside of our control. New illnesses resistant to our current precautions may develop in the future, or diseases with long incubation periods could arise, that could give rise to claims or allegations on a retroactive basis. One or more instances of foodborne illness in any of our properties or related to food products we sell could negatively affect our sales nationwide if highly publicized on national media outlets or through social media. This risk exists even if it were later determined that the illness was wrongly attributed to us or one of our properties.

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 product offerings and price. As a result, competition for market share in the industry in which we compete is significant.

Our Traditional Golf properties compete on a local and regional level with other country clubs and golf properties. The level of competition in the Traditional 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. 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.

The Entertainment Golf market is highly competitive and includes competition on a local and regional level with restaurants, dining and social clubs and other entertainment attractions including movie theatres, sporting events, bowling alleys, sports activity centers, arcades and entertainment centers, nightclubs and theme parks. Many of the entities operating these businesses are larger, have a greater number of stores, have been in business longer and are better established in the markets where our Entertainment Golf venues are located or are planned to be located. As a result, they may be able to invest greater resources than we can in attracting customers and succeed in attracting customers who would otherwise come to our venues. The legalization of casino gambling in geographic areas near any current or future venues would create the possibility for entertainment alternatives, which could have a material adverse effect on our business and financial condition. We also face competition from increasingly sophisticated home-based forms of entertainment, such as internet and video gaming and home movie streaming and delivery.

The number and variety of competitors in our 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, dining and social clubs and other entertainment attractions. 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 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. In addition, we must continue to attract, retain and motivate a sufficient number of qualified management and operating personnel to maintain consistency in our service, hospitality, quality and atmosphere of our Entertainment Golf venues. Qualified management and operating personnel are typically in high demand, and if we are unable to attract and retain a satisfactory number of qualified management and operating personnel, labor shortages could delay the planned openings of new Entertainment Golf venues or adversely impact our existing business.

Our operations are susceptible to changes in the availability and the cost of food, goods, rent, water, utilities, repairs, maintenance and taxes, which could reduce our operating margins and harm our business, financial condition and results of operations.

In our Traditional Golf segment, 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. Increases in operating costs due to inflation and other factors may not be directly offset by increased revenue. Our cost of goods such as food and beverage costs account for a significant portion of our total property-level operating expense in our Traditional and Entertainment Golf segments. 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 decrease, 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 be adversely impacted. The prices of utilities are volatile, and shortages sometimes occur. In particular, in the case of our Traditional Golf business, 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 be adversely impacted.

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 at our Traditional Golf properties. 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, whether or not the applicable golf property has undergone a transfer of ownership since the time of the deposit. 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 at our Traditional Golf properties and Entertainment Golf venues encompass and will continue to encompass, a large amount of real estate holdings, in the form of fee simple ownership and leasehold interests. Accordingly, we are subject to the risks associated with holding real estate investments. In addition, a prolonged decline in the popularity of golf could adversely affect the value of our real estate holdings in our Traditional Golf business and could make it difficult to sell facilities or businesses in our Traditional Golf segment.

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 Traditional Golf 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 10 managed Traditional Golf 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 are engaged in the sale of the real estate that we own constituting a portion of our Traditional Golf properties, and we may from time to time decide to dispose of one or more of our other real estate assets. Because real estate holdings 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, open, maintain and renovate the Traditional and Entertainment Golf 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.

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 opened our first venue in April 2018, and 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. In addition, the materials necessary to construct Entertainment Golf venues are subject to price fluctuation. To the extent that the number of suppliers declines, or the price of materials necessary to construct our Golf Entertainment venues increases, we could be subject to the risk increased capital expenditure costs, 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.

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.

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

In February 2011, one of our subsidiaries became the collateral manager of certain CDOs previously managed by C-BASS Investment Management LLC ("C-BASS").

Being engaged as the collateral manager of CDOs 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 investments in real estate related preferred equity 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, including an approximately 22% economic interest in a limited liability company which owns preferred equity secured by a commercial real estate project. 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. As a result, we may not recover some or all of our investment.

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.

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 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 nine months 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 67,027,104 shares of our common stock outstanding as of November 1, 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	Drive Shack Inc. 2018 Omnibus Incentive Plan (incorporated by reference to Annex A of the Registrant's definitive proxy statement for the 2018 annual meeting of stockholders filed on April 13, 2018).
10.12	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).
10.13	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).
10.14	Form of Indemnification Agreement (incorporated by reference to the Registrant's Report on Form 10-Q, Exhibit 10.19, filed on August 8, 2014).
10.15	Form of Drive Shack Inc. 2018 Omnibus Incentive Plan Director Restricted Stock Unit Award Agreement
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.

**Exhibit
Number**

Exhibit Description

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) Except as otherwise provided under the terms of the Plan or in Section 3(a) hereof, if the Participant's service as a member of the Board is terminated for any reason, this Agreement shall terminate and all rights of the Participant with respect to RSUs that have not

vested shall immediately terminate. Except as otherwise provided under the terms of the Plan or in Section 3(a) hereof, the RSUs that are subject to restrictions upon the date of termination shall be forfeited without payment of any consideration, and neither the Participant nor any of the Participant's successors, heirs, assigns, or personal representatives shall thereafter have any further rights or interests in such RSUs.

5. Voting and Other Rights. The Participant shall have no rights of a stockholder (including the right to distributions or dividends) until Shares are issued following vesting of the Participant's RSUs; provided, that with respect to the period commencing on the date an RSU becomes vested and ending on the date the Shares subject to such RSU are issued pursuant to this Agreement, the Participant shall be eligible to receive an amount of cash or property equal to the product of (i) the number of Shares to be delivered as a result of such vesting, and (ii) the amount of cash or property distributed with respect to an outstanding Share during such period, which amount of cash or property shall be paid to the Participant on the date such Shares are issued. No interest or other earnings will be credited with respect to such payment.

6. Agreement Subject to Plan. This Agreement is made pursuant to all of the provisions of the Plan, which is incorporated herein by this reference, and is intended, and shall be interpreted in a manner, to comply therewith. In the event of any conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan shall govern.

7. Taxes. The Participant understands that the Participant (and not the Company) shall be responsible for any tax liability that may arise as a result of the transactions contemplated by this Agreement.

8. Section 409A Compliance. The intent of the parties is that the payments and benefits under this Agreement comply with Section 409A of the Code to the extent subject thereto, and, accordingly, to the maximum extent permitted, this Agreement shall be interpreted and administered to be in compliance therewith. Notwithstanding anything contained herein to the contrary, to the extent required in order to avoid accelerated taxation and/or tax penalties under Section 409A of the Code, the Participant shall not be considered to have terminated service with the Company and its Affiliates for purposes of this Agreement until the Participant would be considered to have incurred a "separation from service" within the meaning of Section 409A of the Code. Any payments described in this Agreement that are due within the "short-term deferral period" as defined in Section 409A of the Code shall not be treated as deferred compensation unless applicable law requires otherwise. Notwithstanding anything to the contrary in this Agreement, to the extent that any payment (including Share delivery) is to be made upon a separation from service and such payment would result in the imposition of any individual penalty tax and late interest charges imposed under Section 409A of the Code, such payment shall instead be made on the first business day after the date that is six (6) months following such separation from service (or upon the Participant's death, if earlier). The Company makes no representation that any or all of the payments under this Agreement comply with Section 409A of the Code and makes no undertaking to preclude Section 409A of the Code from applying to any such payments or benefits. The Participant shall be solely responsible for the payment of any taxes and penalties incurred under Section 409A of the Code.

9. Governing Law. This Agreement shall be governed by, and construed in accordance with the laws of the State of Maryland, without giving effect to the principles of conflict of laws of such state.

10. Agreement Binding on Successors. The terms of this Agreement shall be binding upon the Participant and upon the Participant's heirs, executors, administrators, personal representatives, transferees, assignees and successors in interest, and upon the Company and its successors and assignees, subject to the terms of the Plan.

11. No Assignment. Notwithstanding anything to the contrary in this Agreement, neither this Agreement nor any rights granted herein shall be assignable by the Participant.

12. Necessary Acts. The Participant hereby agrees to perform all acts, and to execute and deliver any documents that may be reasonably necessary to carry out the provisions of this Agreement, including but not limited to all acts and documents related to compliance with federal and/or state securities and/or tax laws.

13. Severability. Should any provision of this Agreement be held by a court of competent jurisdiction to be unenforceable, or enforceable only if modified, such holding shall not affect the validity of the remainder of this Agreement, the balance of which shall continue to be binding upon the parties hereto with any such modification (if any) to become a part hereof and treated as though contained in this original Agreement. Moreover, if one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to scope, activity, subject or otherwise so as to be unenforceable, in lieu of severing such unenforceable provision, such provision or provisions shall be construed by the appropriate judicial body by limiting or reducing it or them, so as to be enforceable to the maximum extent compatible with the applicable law as it shall then appear, and such determination by such judicial body shall not affect the enforceability of such provisions or provisions in any other jurisdiction.

14. Entire Agreement. This Agreement and the Plan contain the entire agreement and understanding among the parties as to the subject matter hereof, and supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof.

15. Headings. Headings are used solely for the convenience of the parties and shall not be deemed to be a limitation upon or descriptive of the contents of any such Section.

16. Counterparts; Electronic Signature. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. The Participant's electronic signature of this Agreement shall have the same validity and effect as a signature affixed by the Participant's hand.

17. Amendment. No amendment or modification hereof shall be valid unless it shall be in writing and signed by all parties hereto.

18. Set-Off. The Participant hereby acknowledges and agrees, without limiting rights of the Company or any Affiliate thereof otherwise available at law or in equity, that, to the extent permitted by law, the number of Shares due to the Participant under this Agreement may be reduced by, and set-off against, any or all amounts or other consideration payable by the Participant to the Company or any of its Affiliates under any other agreement or arrangement between the Participant and the Company or any of its Affiliates; provided that any such set-off does not result in a penalty under Section 409A of the Code.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date set forth above.

DRIVE SHACK INC.

By _____

Print Name: _____

Title: _____

The undersigned hereby accepts and agrees to all the terms and provisions of the foregoing Agreement.

PARTICIPANT

Signature _____

Print Name: _____

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Section 3: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Sarah L. Watterson, 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.

November 8, 2018

/s/ Sarah L. Watterson

Sarah L. Watterson

Chief Executive Officer and President

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Section 4: 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.

November 8, 2018

/s/ Lawrence A. Goodfield, Jr.

Lawrence A. Goodfield, Jr.

Chief Financial Officer, Chief Accounting Officer and Treasurer

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Section 5: 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 September 30, 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

November 8, 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 6: 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 September 30, 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

November 8, 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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