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

FORM 10-Q

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

For the quarterly period ended March 31, 2019

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	81-0559116
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
218 W. 18th Street, 3rd Floor, New York, NY	10011
(Address of principal executive offices)	(Zip Code)

(646) 585-5591
(Registrant's telephone number, including area code)

111 W. 19th Street, 8th Floor, New York, NY 10011
(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.

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

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

Title of each class	Trading Symbols(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	DS	New York Stock Exchange (NYSE)
9.75% Series B Cumulative Redeemable Preferred Stock, $0.01 par value per share	DS-PB	New York Stock Exchange (NYSE)
8.05% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share	DS-PC	New York Stock Exchange (NYSE)
8.375% Series D Cumulative Redeemable Preferred Stock, $0.01 par value per share	DS-PD	New York Stock Exchange (NYSE)

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 May 1, 2019.

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 any failure 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; and
- other risks detailed from time to time below, particularly in Part I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018, and in our other reports filed with or furnished to the Securities and Exchange Commission, which we refer to as the SEC in this Quarterly Report on Form 10-Q.

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 “Registrant”) 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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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except share data)

	(Unaudited) March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	$ 49,599	$ 79,235
Restricted cash	3,365	3,326
Accounts receivable, net	5,635	7,518
Real estate assets, held-for-sale, net	51,931	75,862
Real estate securities, available-for-sale	3,007	2,953
Other current assets	20,331	20,505
Total current assets	133,868	189,399
Restricted cash, noncurrent	258	258
Property and equipment, net of accumulated depreciation	157,636	132,605
Operating lease right-of-use assets	223,278	—
Intangibles, net of accumulated amortization	20,952	48,388
Other investments	22,956	22,613
Other assets	5,043	8,684
Total assets	$ 563,991	$ 401,947
Liabilities and Equity		
Current liabilities		
Obligations under finance leases	$ 6,790	$ 5,489
Membership deposit liabilities	8,834	8,861
Accounts payable and accrued expenses	37,740	45,284
Deferred revenue	14,738	18,793
Real estate liabilities, held-for-sale	813	2,947
Other current liabilities	29,277	22,285
Total current liabilities	98,192	103,659
Credit facilities and obligations under finance leases - noncurrent	13,185	10,489
Operating lease liabilities - noncurrent	190,229	—
Junior subordinated notes payable	51,198	51,200
Membership deposit liabilities, noncurrent	92,603	90,684
Deferred revenue, noncurrent	5,445	6,016
Other liabilities	3,076	5,232
Total liabilities	$ 453,928	$ 267,280
Commitments and contingencies		
Equity		
Preferred stock, $0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding as of March 31, 2019 and December 31, 2018	$ 61,583	$ 61,583
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 67,027,104 and 67,027,104 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	670	670
Additional paid-in capital	3,177,065	3,175,843
Accumulated deficit	(3,131,133)	(3,105,307)
Accumulated other comprehensive income	1,878	1,878
Total equity	$ 110,063	$ 134,667
Total liabilities and equity	$ 563,991	$ 401,947

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2019	**2018**
Revenues		
Golf operations	$ 44,706	$ 53,554
Sales of food and beverages	9,246	13,106
Total revenues	53,952	66,660
Operating costs		
Operating expenses	47,723	57,379
Cost of sales - food and beverages	2,698	4,040
General and administrative expense	11,619	9,192
Depreciation and amortization	4,924	5,548
Pre-opening costs	1,179	1,556
Impairment	4,088	1,473
Realized and unrealized (gain) on investments	—	(242)
Total operating costs	72,231	78,946
Operating loss	(18,279)	(12,286)
Other income (expenses)		
Interest and investment income	344	446
Interest expense, net	(2,153)	(4,049)
Other income (loss), net	5,488	(406)
Total other income (expenses)	3,679	(4,009)
Loss before income tax	(14,600)	(16,295)
Income tax expense	—	—
Net Loss	(14,600)	(16,295)
Preferred dividends	(1,395)	(1,395)
Loss Applicable to Common Stockholders	$ (15,995)	$ (17,690)
Loss Applicable to Common Stock, per share		
Basic	$ (0.24)	$ (0.26)
Diluted	$ (0.24)	$ (0.26)
Weighted Average Number of Shares of Common Stock Outstanding		
Basic	67,027,104	66,977,104
Diluted	67,027,104	66,977,104

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2019	2018
Net loss	$ (14,600)	$ (16,295)
Other comprehensive income (loss):		
Net unrealized gain on available-for-sale securities	—	33
Other comprehensive income (loss)	—	33
Total comprehensive loss	$ (14,600)	$ (16,262)
Comprehensive loss attributable to Drive Shack Inc. stockholders' equity	$ (14,600)	$ (16,262)

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (Unaudited)
FOR THE THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(dollars in thousands, except share data)

	Drive Shack Inc. Stockholders							
	Preferred Stock		Common Stock					
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comp. Income	Total Equity (Deficit)
Equity (deficit) - December 31, 2017	2,463,321	$ 61,583	66,977,104	$ 670	$ 3,173,281	$ (3,065,853)	$ 1,370	$ 171,051
Dividends declared	—	—	—	—	—	(1,395)	—	(1,395)
Stock-based compensation	—	—	—	—	278	—	—	278
Adoption of ASC 606	—	—	—	—	—	4,809	—	4,809
Comprehensive income (loss)								
Net loss	—	—	—	—	—	(16,295)	—	(16,295)
Other comprehensive income	—	—	—	—	—	—	33	33
Total comprehensive loss								(16,262)
Equity (deficit) - March 31, 2018	2,463,321	$ 61,583	66,977,104	$ 670	$ 3,173,559	$ (3,078,734)	$ 1,403	$ 158,481
Equity (deficit) - December 31, 2018	2,463,321	$ 61,583	67,027,104	$ 670	$ 3,175,843	$ (3,105,307)	$ 1,878	$ 134,667
Dividends declared	—	—	—	—	—	(1,395)	—	(1,395)
Stock-based compensation	—	—	—	—	1,222	—	—	1,222
Adoption of ASC 842	—	—	—	—	—	(9,831)		(9,831)
Comprehensive income (loss)								
Net loss	—	—	—	—	—	(14,600)	—	(14,600)
Other comprehensive income	—	—	—	—	—	—	—	—
Total comprehensive loss								(14,600)
Equity (deficit) - March 31, 2019	2,463,321	$ 61,583	67,027,104	$ 670	$ 3,177,065	$ (3,131,133)	$ 1,878	$ 110,063

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(dollars in thousands, except share data)

	Three Months Ended March 31, 2019	Three Months Ended March 31, 2018
Cash Flows From Operating Activities		
Net loss	$ (14,600)	$ (16,295)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	4,924	5,548
Amortization of discount and premium	(56)	288
Other amortization	3,566	2,711
Amortization of revenue on golf membership deposit liabilities	(379)	(349)
Amortization of prepaid golf membership dues	(3,323)	(6,270)
Stock-based compensation	1,222	278
Impairment	4,088	1,473
Equity in earnings from equity method investments, net of distributions	(341)	(379)
Other (gains) losses, net	(5,022)	2
Unrealized (gain) on investments	—	(242)
Loss on extinguishment of debt	16	52
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	(1,052)	(1,983)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	(11,234)	(353)
Net cash used in operating activities	(22,191)	(15,519)
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	17,749	—
Acquisition and additions of property and equipment and intangibles	(22,717)	(15,378)
Net cash used in investing activities	(4,968)	(15,378)
Cash Flows From Financing Activities		
Repayments of debt obligations	(1,397)	(1,141)
Golf membership deposits received	357	861
Preferred stock dividends paid	(1,395)	(1,395)
Other financing activities	(3)	(105)
Net cash used in financing activities	(2,438)	(1,780)
Net Decrease in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	(29,597)	(32,677)
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period	82,819	173,688
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period	$ 53,222	$ 141,011
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends declared but not paid	$ 930	$ 930
Additions to finance lease assets and liabilities	$ 6,352	$ 1,170
Additions to property and equipment and accounts payable	$ 2,258	$ 6,599
Additions for operating lease right-of-use assets and operating lease liabilities	$ 200,368	$ —

See notes to Consolidated Financial Statements.

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) Entertainment Golf venues, (ii) Traditional Golf properties and (iii) corporate. For a further discussion of the reportable segments, see Note 4.

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.

The Company's Traditional Golf business is one of the largest operators of golf properties in the United States. As ofMarch 31, 2019, the Company owned, leased or managed 64 properties across 11 states.

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, 2018 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 15, 2019. Capitalized terms used herein, and not otherwise defined, are defined in the Company's Consolidated Financial Statements for the year ended December 31, 2018.

As of March 31, 2019, 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, 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 March 31,	
	2019	2018
Unrealized (gain) on non-hedge derivative instruments	—	(242)
Realized and unrealized (gain) loss on investments	$ —	$ (242)
Loss on lease modifications and terminations	$ —	$ (771)
Loss on extinguishment of debt, net	(16)	(52)
Collateral management fee income, net	128	154
Equity in earnings of equity method investments	341	379
Gain (loss) on sale of long-lived assets and intangibles	5,029	(206)
Other income	6	90
Other income (loss), net	$ 5,488	$ (406)

Property and Equipment, Net — 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 could 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.

Leasing Arrangements — The Company evaluates at lease inception whether an arrangement is or contains a lease by providing the Company with the right to control an asset. Operating leases are accounted for on balance sheet with the Right of Use (“ROU”) assets and lease liabilities recognized in "Operating lease right-of-use assets," "Other current liabilities" and "Operating lease liabilities - noncurrent" in the Consolidated Balance Sheets. Finance lease ROU assets, current lease liabilities and noncurrent lease liabilities are recognized in "Property and equipment, net of accumulated depreciation", and "Obligations under finance leases" and "Credit facilities and obligations under finance leases - noncurrent" in the Consolidated Balance Sheets, respectively.

All lease liabilities are measured at the present value of the associated payments, discounted using the Company’s incremental borrowing rate determined using a portfolio approach based on the rate of interest that the Company would pay to borrow on a collateralized basis an amount equal to the lease payments for similar term and in a similar economic environment on a collateralized basis. ROU assets, for both operating and finance leases, are initially measured based on the lease liability, adjusted for initial direct costs, prepaid rent, and lease incentives received. The operating lease ROU assets are subsequently measured at the carrying amount of the lease liability adjusted for initial direct costs, prepaid or accrued lease payments, and lease incentives. Depreciation of the finance lease ROU assets are subsequently calculated using the straight-line method over the shorter of the estimated useful lives or the expected lease terms and recorded in "Depreciation and amortization" on the Consolidated Statements of Operations.

In addition to the fixed minimum payments required under the lease arrangements, certain leases require variable lease payments, which are payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments as well as payment of taxes assessed against the leased property. The leases generally also require the payment for the cost of insurance and maintenance. Variable lease payments are recognized when the associated activity occurs and contingency is resolved.

The Company has elected to combine lease and non-lease components for all lease contracts. Additionally, the Company does not recognize ROU assets and lease liabilities for arrangements with lease terms of 12 months or less and lease payments are recognized on a straight-line basis over the lease term with variable lease payments recognized in the period in which the obligation is incurred.

Other Investment — The Company owns an approximately 22% economic interest in a limited liability company which owns preferred equity secured by a commercial real estate project. The Company accounts for this investment as an equity method investment. As of March 31, 2019 and December 31, 2018, the carrying value of this investment was $23.0 million and $22.6

(dollars in tables in thousands, except share data)

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

Impairment of Real Estate and Finite-lived Intangible Assets — The Company periodically reviews the carrying amounts of its long-lived assets, including real estate 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 by sale 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:

	March 31, 2019	December 31, 2018
Prepaid expenses	$ 2,310	$ 2,651
Deposits	2,606	2,494
Inventory	3,025	2,855
Miscellaneous current assets, net	12,390	12,505
Other current assets	$ 20,331	$ 20,505

Other Assets

The following table summarizes the Company's other assets:

	March 31, 2019	December 31, 2018
Prepaid expenses	$ 334	$ 277
Deposits	2,127	2,140
Miscellaneous assets, net	2,582	6,267
Other assets	$ 5,043	$ 8,684

Other Current Liabilities

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

	March 31, 2019	December 31, 2018
Security deposits payable	$ 6,435	$ 14,188
Operating lease liabilities	16,924	—
Accrued rent	1,707	2,885
Dividends payable	930	930
Miscellaneous current liabilities	3,281	4,282
Other current liabilities	$ 29,277	$ 22,285

(dollars in tables in thousands, except share data)

Other Liabilities

The following table summarized the Company's other liabilities:

	March 31, 2019	December 31, 2018
Security deposits payable	$ 271	$ 91
Service obligation intangible	2,043	2,759
Accrued rent	—	1,617
Miscellaneous liabilities	762	765
Other liabilities	$ 3,076	$ 5,232

Recent Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. On January 1, 2019, the Company adopted ASU 2016-02 using a modified retrospective approach. The Company has utilized the effective date transition method and accordingly is not required to adjust its comparative period financial information for effects of ASU 2016-02. The Company has elected to adopt practical expedients which permits it to not reassess its prior conclusions about lease identification, lease classification and initial direct costs under the new standard. The Company elected to combine lease and non-lease components for all lease contracts and also elected not to recognize ROU assets and lease liabilities for leases with terms of 12 months or less. The Company has also elected to adopt the practical expedient for land easements which permits it not to evaluate existing and expired land easements under the new standard. The adoption of ASU 2016-02 had a material impact on the Company's Consolidated Balance Sheets, resulting in the recognition of operating lease right-of-use assets and operating lease liabilities of $225.6 million and $205.9 million, respectively, with the difference primarily due to reclassifications of leasehold intangibles and an adjustment to accumulated deficit. There was no material impact on the Consolidated Statements of Operations.

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. In November 2018, the FASB issued ASU 2018-19 *Codification Improvements to Topic 326, Financial Instruments - Credit Losses,* which clarifies that operating lease receivables accounted for under ASC 842 are not in the scope of this guidance. 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 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 timing for adoption and the impact it may have on its Consolidated Financial Statements.

(dollars in tables in thousands, except share data)

3. REVENUES

The majority of the Company's revenue is recognized at a point in time which is at the time of sale to customers at the Company's Entertainment Golf venues and Traditional Golf properties, including green fees, cart rentals, bay play, events and sales of food, beverages and merchandise.

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

	Three Months Ended March 31, 2019					Three Months Ended March 31, 2018				
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties	Total	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties	Total
Golf operations	$ 681	$ 17,464	$ 15,454	$ 11,107	$ 44,706	$ —	$ 22,370	$ 25,949	$ 5,235	$ 53,554
Sales of food and beverages	1,040	5,476	2,730	—	9,246	—	7,207	5,899	—	13,106
Total revenues	$ 1,721	$ 22,940	$ 18,184	$ 11,107	$ 53,952	$ —	$ 29,577	$ 31,848	$ 5,235	$ 66,660

4. SEGMENT REPORTING

The Company currently has three reportable segments: (i) Entertainment Golf venues, (ii) Traditional Golf properties 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 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.

Additionally, the Company's Traditional Golf business is one of the largest operators of golf properties in the United States. As of March 31, 2019, the Company owned, leased or managed 64 Traditional Golf properties across 11 states.

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 8) 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 former Debt Investments segment was combined with the corporate segment, to reflect the ongoing reduction in size of the Debt Investments segment.

(dollars in tables in thousands, except share data)

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:

	Entertainment Golf	Traditional Golf	Corporate	Total
Three Months Ended March 31, 2019				
Revenues				
Golf operations	$ 681	$ 44,025	$ —	$ 44,706
Sales of food and beverages	1,040	8,206	—	9,246
Total revenues	1,721	52,231	—	53,952
Operating costs				
Operating expenses (A)	1,747	45,976	—	47,723
Cost of sales - food and beverages	251	2,447	—	2,698
General and administrative expense	3,379	3,897	3,944	11,220
General and administrative expense - acquisition and transaction expenses (B)	157	153	89	399
Depreciation and amortization	709	4,217	(2)	4,924
Pre-opening costs (C)	1,179	—	—	1,179
Impairment	—	4,088	—	4,088
Realized and unrealized (gain) on investments	—	—	—	—
Total operating costs	7,422	60,778	4,031	72,231
Operating loss	(5,701)	(8,547)	(4,031)	(18,279)
Other income (expenses)				
Interest and investment income	132	38	174	344
Interest expense (D)	(3)	(2,190)	(626)	(2,819)
Capitalized interest (D)	—	188	478	666
Other (loss) income, net	(7)	5,030	465	5,488
Total other income (expenses)	122	3,066	491	3,679
Income tax expense	—	—	—	—
Net loss	(5,579)	(5,481)	(3,540)	(14,600)
Preferred dividends	—	—	(1,395)	(1,395)
Loss applicable to common stockholders	$ (5,579)	$ (5,481)	$ (4,935)	$ (15,995)

	Entertainment Golf	Traditional Golf	Corporate (E)	Total
March 31, 2019				
Total assets	164,907	351,877	47,207	563,991
Total liabilities	42,054	349,987	61,887	453,928
Preferred stock	—	—	61,583	61,583
Noncontrolling interest	—	—	—	—
Equity attributable to common stockholders	$ 122,853	$ 1,890	$ (76,263)	$ 48,480
Additions to property and equipment (including finance leases) during the three months ended March 31, 2019	$ 28,037	$ 2,106	$ 800	$ 30,943

(dollars in tables in thousands, except share data)

Summary segment financial data (continued).

	Entertainment Golf	Traditional Golf	Corporate (F)	Total
Three Months Ended March 31, 2018				
Revenues				
Golf operations	$ —	$ 53,554	$ —	$ 53,554
Sales of food and beverages	—	13,106	—	13,106
Total revenues	—	66,660	—	66,660
Operating costs				
Operating expenses (A)	—	57,379	—	57,379
Cost of sales - food and beverages	—	4,040	—	4,040
General and administrative expense	1,102	4,153	2,080	7,335
General and administrative expense - acquisition and transaction expenses (B)	1,253	307	297	1,857
Depreciation and amortization	30	5,513	5	5,548
Pre-opening costs (C)	1,556	—	—	1,556
Impairment	—	1,326	147	1,473
Realized and unrealized (gain) on investments	—	(242)	—	(242)
Total operating costs	3,941	72,476	2,529	78,946
Operating loss	(3,941)	(5,816)	(2,529)	(12,286)
Other income (expenses)				
Interest and investment income	28	51	367	446
Interest expense (D)	—	(3,938)	(494)	(4,432)
Capitalized interest (D)	—	383	—	383
Other (loss) income, net	—	(938)	532	(406)
Total other income (expenses)	28	(4,442)	405	(4,009)
Income tax expense	—	—	—	—
Net loss	(3,913)	(10,258)	(2,124)	(16,295)
Preferred dividends	—	—	(1,395)	(1,395)
Loss applicable to common stockholders	$ (3,913)	$ (10,258)	$ (3,519)	$ (17,690)

(A) Operating expenses include rental expenses recorded under operating leases for carts and equipment in the amount of $0.3 million and $0.6 million for the three months ended March 31, 2019 and 2018, 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 $1.9 million and $1.7 million for the three months ended March 31, 2019 and 2018, 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 $23.0 million as of March 31, 2019 recorded in other investments on the Consolidated Balance Sheets.
(F) The Debt Investments segment and corporate segment as reported previously are combined to conform to the current period's presentation.

(dollars in tables in thousands, except share data)

5. PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

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

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Land	$ 6,747	$ —	$ 6,747	$ 6,747	$ —	$ 6,747
Buildings and improvements	77,055	(30,315)	46,740	78,833	(30,540)	48,293
Furniture, fixtures and equipment	27,179	(17,396)	9,783	26,726	(16,729)	9,997
Finance leases - equipment	33,359	(13,566)	19,793	28,745	(12,843)	15,902
Construction in progress	74,573	—	74,573	51,666	—	51,666
Total Property and Equipment	$ 218,913	$ (61,277)	$ 157,636	$ 192,717	$ (60,112)	$ 132,605

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. As of March 31, 2019, the Company continues to present nine golf properties as held-for-sale. 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.

The real estate assets, held-for-sale, net are reported at a carrying value of $51.9 million and include $34.8 million of land, $17.3 million of buildings and improvements, $1.1 million of furniture, fixtures and equipment, and $0.5 million of other related assets, partially offset by accumulated impairment. The real estate liabilities, held-for-sale, are reported at a carrying value of $0.8 million and include property liabilities to be assumed, primarily prepaid membership dues. In March 2019, 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 $1.0 million. The fair value measurements were based on expected selling prices, less costs to sell. The significant inputs used to value these real estate investments fall within Level 3 for fair value reporting.

During the three months ended March 31, 2019, the Company sold two public golf properties in Georgia and a private golf property in California for an aggregate sale price of $28.7 million, resulting in net proceeds of $25.5 million, inclusive of transaction costs of $0.5 million. The Company received sale proceeds of $17.7 million during the three months ended March 31, 2019, consisting of $18.2 million for the golf properties sold during the three months ended March 31, 2019, and $2.2 million for golf properties that were sold during December 2018, less $2.7 million that was remitted to buyers for golf properties that were sold during December 2018. The Company previously received a $9.4 million cash deposit in 2018 related to a golf property that was sold in 2019. The difference between the sales price and the net proceeds was primarily due to prepaid membership dues that we are obligated to remit to the buyer, including $2.1 million payable to the buyer of a golf property sold during the three months ended March 31, 2019. The golf properties had a carrying value of $20.3 million and resulted in a gain on sale of $5.2 million. The gain on sale is recorded in other income (loss), net on the Consolidated Statement of Operations. The Company entered into a management agreement on the California golf property.

In March 2019, the Company evaluated the recoverability of the carrying value of a Traditional Golf leased golf property in California, using the income approach based on future assumptions of cash flows. Based on the analysis, the Company recorded an impairment charge of $3.1 million. As the fair value inputs utilized are unobservable, the Company determined that the significant inputs used to value this property falls within Level 3 for fair value reporting.

(dollars in tables in thousands, except share data)

6. LEASES

The Company's commitments under lease arrangements are primarily ground leases for Entertainment Golf venues and Traditional Golf properties and related facilities, office leases and leases for equipment and golf carts. The majority of lease terms for our Entertainment Golf venues and Traditional Golf properties and related facilities initially range from 10 to 20 years, and include up to eight 5-year renewal options (see Note 13 for additional detail). Equipment and golf cart leases initially range between 2 to 6 years and typically contain renewal options which may be on a month-to-month basis. An option to renew a lease is included in the determination of the ROU asset and lease liability when it is reasonably certain that the renewal option will be exercised.

Lease related costs recognized in the Consolidated Statements of Operations for the three months ended March 31, 2019 are as follows:

Finance lease cost		
Amortization of right-of-use assets	$	1,517
Interest on lease liabilities		246
Total finance lease cost		1,763
Operating lease cost		
Operating lease cost		8,890
Short-term lease cost		751
Variable lease cost		2,750
Total operating lease cost		12,391
Total lease cost	$	14,154

Other information related to leases included on the Consolidated Balance Sheet as of and the three months ended March 31, 2019 are as follows:

	Operating Leases	Financing Leases
Right-of-use assets	223,278	19,793
Lease liabilities	207,153	19,775
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows	7,484	189
Financing cash flows	N/A	1,355
Right-of-use assets obtained in exchange for lease liabilities	4,305	6,352
Weighted average remaining lease term	13.1 years	3.5 years
Weighted average discount rate	8.7%	5.1%

Future minimum lease payments under non-cancellable leases as of March 31, 2019 are as follows:

(dollars in tables in thousands, except share data)

	Operating Leases	Financing Leases
April 1, 2019 - December 31, 2019	22,899	6,009
2020	33,680	6,013
2021	30,739	4,509
2022	29,034	2,874
2023	28,862	1,803
Thereafter	225,126	258
Total minimum lease payments	370,340	21,466
Less: imputed interest	163,187	1,691
Total lease liabilities	$ 207,153	$ 19,775

7. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company’s intangible assets:

	March 31, 2019			December 31, 2018		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	$ 700	$ (122)	$ 578	$ 700	$ (117)	$ 583
Leasehold intangibles (A) (B)	—	—	—	46,581	(20,270)	26,311
Management contracts	32,331	(15,582)	16,749	32,932	(15,174)	17,758
Internally-developed software	2,327	(1,048)	1,279	2,314	(967)	1,347
Membership base	5,236	(3,927)	1,309	5,236	(3,740)	1,496
Nonamortizable liquor licenses	1,037	—	1,037	893	—	893
Total Intangibles	$ 41,631	$ (20,679)	$ 20,952	$ 88,656	$ (40,268)	$ 48,388

(A) The amortization expense for leasehold intangibles is reported in operating expenses in the Consolidated Statements of Operations.
(B) As of January 1, 2019, leasehold intangibles were reclassified from "Intangibles, net of accumulated amortization" to "Operating lease right-of-use assets" in the Consolidated Balance Sheet as part of the adoption of ASU 2016-02.

(dollars in tables in thousands, except share data)

8. DEBT OBLIGATIONS

The following table presents certain information regarding the Company's debt obligations atMarch 31, 2019 and December 31, 2018:

		March 31, 2019							December 31, 2018	
Debt Obligation/Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Coupon (A)	Weighted Average Funding Cost (B)	Weighted Average Life (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount	Carrying Value
Credit Facilities and Finance Leases										
Vineyard II	Dec 1993	$ 200	$ 200	Dec 2043	2.80%	2.80%	24.7	$ 200	$ 200	$ 200
Finance leases (Equipment)	Jun 2014 - Mar 2019	19,775	19,775	May 2019 - Oct 2024	3.00% to 15.00%	5.13%	3.5	—	15,778	15,778
		19,975	19,975			5.11%	3.7	200	15,978	15,978
Less current portion of obligations under finance leases		6,790	6,790						5,489	5,489
Credit facilities and obligations under finance leases - noncurrent		13,185	13,185						10,489	10,489
Corporate										
Junior subordinated notes payable (C)	Mar 2006	51,004	51,198	Apr 2035	LIBOR+2.25%	4.74%	16.1	51,004	51,004	51,200
Total debt obligations		$ 70,979	$ 71,173			4.84%	12.6	$ 51,204	$ 66,982	$ 67,178

(A) Weighted average, including floating and fixed rate classes.
(B) Including the effect of deferred financing costs.
(C) Interest rate based on 3 month LIBOR plus 2.25%.

The Company leases certain golf carts and other equipment under finance lease agreements. The agreements typically provide for minimum rentals plus executory costs. Lease terms range from 24 to 66 months. Certain leases include bargain purchase options at lease expiration.

9. REAL ESTATE SECURITIES

The following is a summary of the Company's real estate securities at March 31, 2019, 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.

	March 31, 2019												
		Amortized Cost Basis			Gross Unrealized				Weighted Average				
Asset Type	Outstanding Face Amount	Before Impairment	Other-Than-Temporary Impairment	After Impairment	Gains	Losses	Carrying Value (A)	Number of Securities	Rating (B)	Coupon	Yield	Life (Years) (C)	Principal Subordination (D)
ABS - Non-Agency RMBS	$ 4,000	$ 2,650	$ (1,521)	$ 1,129	$ 1,878	$ —	$ 3,007	1	CCC	2.88%	32.00%	4.7	38.7%
Total Securities, Available for Sale (E)	$ 4,000	$ 2,650	$ (1,521)	$ 1,129	$ 1,878	$ —	$ 3,007	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 U.S. The Company does not have significant investments in any geographic region.

(dollars in tables in thousands, except share data)

The Company had no securities in an unrealized loss position as ofMarch 31, 2019. The Company has no activity related to credit losses on debt securities for thethree months ended March 31, 2019.

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 atMarch 31, 2019:

	Carrying Value	Estimated Fair Value	Fair Value Method (A)
Assets			
Real estate securities, available-for-sale	$ 3,007	$ 3,007	Pricing models - Level 3
Cash and cash equivalents	49,599	49,599	
Restricted cash, current and noncurrent	3,623	3,623	
Liabilities			
Junior subordinated notes payable	51,198	29,383	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.

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.

(dollars in tables in thousands, except share data)

Significant Unobservable Inputs

The following table provides quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of March 31, 2019:

			Weighted Average Significant Input			
Asset Type	Amortized Cost Basis	Fair Value	Discount Rate	Prepayment Speed	Cumulative Default Rate	Loss Severity
ABS - Non-Agency RMBS	$ 1,129	$ 3,007	10.0%	8.0%	2.9%	43.3%

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 thethree months ended March 31, 2019 as follows:

	ABS - Non-Agency RMBS
Balance at December 31, 2018	$ 2,953
Total gains (losses) (A)	
Included in other comprehensive income (loss)	—
Amortization included in interest income	82
Purchases, sales and repayments (A)	
Proceeds	(28)
Balance at March 31, 2019	$ 3,007

(A) None of the gains (losses) recorded in earnings during the period are attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates. There were no purchases or sales during the three months ended March 31, 2019. There were no transfers into or out of Level 3 during the three months ended March 31, 2019.

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**
Junior subordinated notes payable	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: ● Amount and timing of expected future cash flows ● Interest rates ● Market yields and the credit spread of the Company

(dollars in tables in thousands, except share data)

11. EQUITY AND EARNINGS PER SHARE

A. Stock Options

The following is a summary of the changes in the Company's outstanding options for thethree months ended March 31, 2019:

	Number of Options	Weighted Average Strike Price	Weighted Average Life Remaining (in years)
Balance at December 31, 2018	8,436,931	$ 3.72	
Balance at March 31, 2019	8,436,931	$ 3.72	7.47
Exercisable at March 31, 2019	2,705,586	$ 2.64	4.39

As of March 31, 2019, the Company's outstanding options were summarized as follows:

	Number of Options
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
Issued to Drive Shack employees (B)	3,426,355
Total	8,436,931
Weighted average strike price	$ 3.72

(A) The Company and the former Manager agreed that options held by certain employees formerly employed by the Manager would not terminate or be forfeited as a result of the Termination and Cooperation Agreement, and the vesting of such options 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 options fully vest and are exercisable one year prior to the option expiration date, beginning March 2020 through January 2024.

(B) In November 2018, the Company issued options to certain employees as provided in their employment agreements. The options fully vest and are exercisable as follows: 3,351,355 options vest in equal annual installments on each of the firstthree anniversaries of the grant date; and 75,000 options fully vest on the third anniversary of the grant date.

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.

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 $1.2 million and $0.3 million during the three months ended March 31, 2019 and 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 $12.0 million as of March 31, 2019 and will be expensed over a weighted average of 2.1 years.

(dollars in tables in thousands, except share data)

B. Restricted Stock Units ("RSUs")

The following is a summary of the changes in the Company's RSUs for thethree months ended March 31, 2019.

	Number of RSUs	Weighted Average Grant Date Fair Value (per unit)
Balance at December 31, 2018	54,641	$ 5.02
Balance at March 31, 2019	54,641	$ 5.02

The Company granted RSUs to the non-employee directors as part of their 2018 annual compensation. The RSUs are subject to aone year vesting period and begin to vest in August 2019. 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 and zero during the three months ended March 31, 2019 and 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 RSUs was $0.1 million as of March 31, 2019 and will be expensed over a weighted average of 0.5 years.

C. Dividends

On March 13, 2019, 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, 2019 and ending April 30, 2019. Dividends totaling $1.4 million were paid on April 29, 2019.

D. Earnings Per Share

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

	Three Months Ended March 31,	
	2019	2018
Numerator for basic and diluted earnings per share:		
Loss from continuing operations after preferred dividends and noncontrolling interests	$ (15,995)	$ (17,690)
Loss Applicable to Common Stockholders	$ (15,995)	$ (17,690)
Denominator:		
Denominator for basic earnings per share - weighted average shares	67,027,104	66,977,104
Effect of dilutive securities		
Options	—	—
RSUs	—	—
Denominator for diluted earnings per share - adjusted weighted average shares	67,027,104	66,977,104
Basic earnings per share:		
Loss from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	$ (0.24)	$ (0.26)
Loss Applicable to Common Stock, per share	$ (0.24)	$ (0.26)
Diluted earnings per share:		
Loss from continuing operations per share of common stock, after preferred dividends and noncontrolling interests	$ (0.24)	$ (0.26)
Loss Applicable to Common Stock, per share	$ (0.24)	$ (0.26)

The Company's dilutive securities are its outstanding stock options and RSUs. During the three months ended March 31, 2019 and 2018, the Company had 706,694 and zero antidilutive options, respectively. During the three months ended March 31, 2019 and 2018 based on the treasury stock method, the Company had 2,233,692 and 2,509,765 potentially dilutive securities, respectively, which were excluded due to the Company's loss position.

12. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Agreements with the Former Manager

On December 21, 2017, the Company entered into a Transition Services Agreement, effective as of January 1, 2018, with the former Manager. In order to facilitate the transition of the Company's management of its operations and provide the Company sufficient time to develop such services in-house or to hire other third-party service providers for such services, under the Transition Services Agreement, the former Manager continues to provide to the Company certain services ("Transition Services"). The Transition Services primarily include information technology, legal, regulatory compliance, tax and accounting services. The Transition Services are provided for a fee intended to be equal to the former Manager's cost of providing the Transition Services, including the allocated cost of, among other things, overhead, employee wages and compensation and out-of-pocket expenses, and will be invoiced on a monthly basis. The Company incurred $0.1 million and $0.2 million in costs for Transition Services during the three months ended March 31, 2019 and 2018, respectively, and these costs are reported in general and administrative expense on the Consolidated Statements of Operations.

At March 31, 2019, 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).

Other Affiliated Entities

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

The Company leased corporate office space from an affiliate of a member of our Board of Directors. The Company has accrued $0.2 million in rent expense for the three months ended March 31, 2019, 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 a total of $1.1 million of the quarterly installments as of March 31, 2019, and the final payment is due in December 2019.

On February 19, 2019, a former employee filed a class action complaint against the Company alleging that our Traditional Golf properties in the State of New York did not comply with state wage and hour laws, including New York Labor Law Section 190 et seq. and Section 196-d and 12 New York Codes, Rules and Regulations Part 146, and seeking monetary damages under these laws. The Company has not accrued additional losses in connection with this legal dispute because management does not believe there is a probable and reasonably estimable loss at this time. However, the ultimate outcome of the proceedings may have a material adverse effect on our business, financial position or results of operations.

The Company is and may become, from time to time, involved in legal actions in the ordinary course of business, including governmental and administrative investigations, inquiries and proceedings concerning employment, labor, environmental, 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 March 31, 2019, 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 Company entered into a ground lease in New Orleans, Louisiana. During December 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 eight 5-year renewal options.

As of March 31, 2019, the Company has additional operating leases that have not yet commenced of $115.4 million. The leases are expected to commence over the next 12 - 24 months with lease terms of 2 to 20 years. These leases are primarily real estate leases for future Entertainment Golf venues and the commencement of these leases is contingent on completion of due diligence and satisfaction of certain contingencies prior to construction.

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 $5.7 million in property repair costs related to Hurricane Irma of which $0.2 million was incurred in 2019. As of March 31, 2019, all hurricane property repairs are complete. 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 months ended March 31, 2019 and 2018.

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

The Company recorded a valuation allowance against its deferred tax assets as of March 31, 2019 as management does not believe that it is more likely than not that the deferred tax assets will be realized.

15. SUBSEQUENT EVENTS

These Consolidated Financial Statements include a discussion of material events, if any, that have occurred subsequent to March 31, 2019 through the issuance of these Consolidated Financial Statements.

In April 2019, the Company consummated the sale of a private golf property in Tennessee for a sale price of $4.8 million.

On April 11, 2019, the Company issued 695,652 options at a strike price of $4.66. The options fully vest and are exercisable in equal annual installments on each of the first three anniversaries of the grant date.

On May 7, 2019, 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, 2019 and ending July 31, 2019. Dividends totaling $1.4 million will be paid on July 31, 2019 to stockholders of record on July 1, 2019.

On May 9, 2019, the Company consummated the sale of a private golf property in Washington for a sale price of $8.9 million.

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 I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

GENERAL

The Company is a leading owner and operator of golf-related leisure and entertainment businesses. The Company was formed in 2002 and its common stock is traded on the NYSE under the symbol "DS." We conduct our business through the following segments: (i) Entertainment Golf venues, (ii) Traditional Golf properties and (iii) corporate.

Business Overview

Entertainment Golf | *Drive Shack*

Drive Shack is an entertainment company that combines golf, competition, dining and fun. In April 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 can compete in a technologically-enhanced golf games. Consumers who are seeking a good time, and not looking to participate in the game, are able to spectate from one of Drive Shack's restaurant or lounge areas.

Traditional Golf | *American Golf*

American Golf (as defined below) is one of the largest operators of golf properties in the United States. As of March 31, 2019, we owned, leased or managed 64 properties across 11 states. American Golf and its dedicated employees are focused on delivering lasting experiences for our customers, including our more than 40,000 members, who played over 500,000 rounds at our properties during the three months ended March 31, 2019.

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.

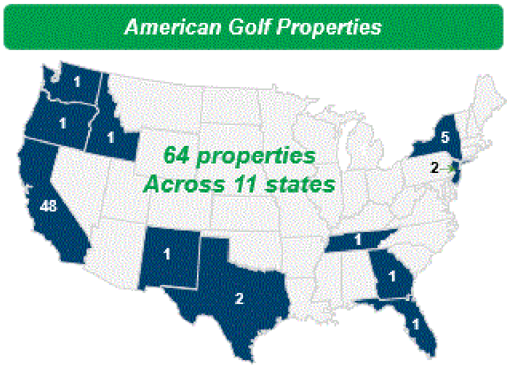
Traditional Golf operations are organized into three principal categories: (1) public properties, (2) private properties and (3) managed properties.

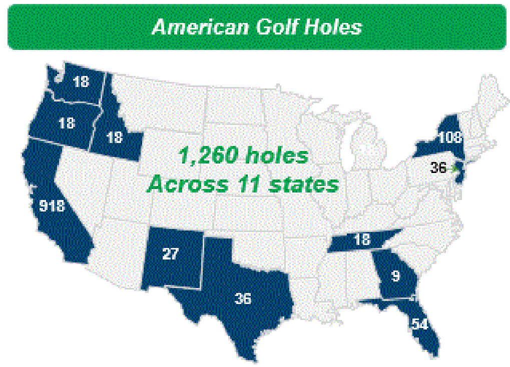
Public Properties. Our 39 public properties generate revenues principally through daily green fees, golf cart rentals and food, beverage and merchandise sales. Amenities at these properties generally include practice facilities and pro shops with food and beverage facilities. In some cases, our public 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 seven 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 18 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 ofMarch 31, 2019:





(# of properties)	Total	Owned	Leased	Managed
Private	18	3	4	11
Public	46	7	32	7
Total	**64**	**10**	**36**	**18**

(# of holes)	Total	Owned	Leased	Managed
Private	414	63	126	225
Public	846	135	576	135
Total	**1,260**	**198**	**702**	**360**

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, optimize our Traditional Golf business, including sales of certain owned properties, and obtain additional capital. We have substantially monetized the remaining loans and securities. We last raised capital through the equity markets in 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.

Entertainment Golf Business

We opened our inaugural venue in Orlando, Florida in April 2018 and are in the construction and development phase for six additional sites, 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.

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.

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, 2018, except for those made in connection with the adoption of ASU 2016-02. See Note 2 in Part I, Item 1 "Financial Statements" for additional information.

Recent Accounting Pronouncements

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

RESULTS OF OPERATIONS

The following table summarize the changes in our results of operations for thethree months ended March 31, 2019 and 2018 (dollars in thousands):

	Three Months Ended March 31,		Increase (Decrease)	
	2019	2018	Amount	%
Revenues				
Golf operations (A)	$ 44,706	$ 53,554	$ (8,848)	(16.5)%
Sales of food and beverages	9,246	13,106	(3,860)	(29.5)%
Total revenues	53,952	66,660	(12,708)	(19.1)%
Operating costs				
Operating expenses (A)	47,723	57,379	(9,656)	(16.8)%
Cost of sales - food and beverages	2,698	4,040	(1,342)	(33.2)%
General and administrative expense	11,619	9,192	2,427	26.4 %
Depreciation and amortization	4,924	5,548	(624)	(11.2)%
Pre-opening costs	1,179	1,556	(377)	(24.2)%
Impairment	4,088	1,473	2,615	177.5 %
Realized and unrealized (gain) on investments	—	(242)	242	(100.0)%
Total operating costs	72,231	78,946	(6,715)	(8.5)%
Operating loss	(18,279)	(12,286)	5,993	48.8 %
Other income (expenses)				
Interest and investment income	344	446	(102)	(22.9)%
Interest expense, net	(2,153)	(4,049)	(1,896)	(46.8)%
Other income (loss), net	5,488	(406)	5,894	N.M.
Total other income (expenses)	3,679	(4,009)	7,688	(191.8)%
Loss before income tax	$ (14,600)	$ (16,295)	$ (1,695)	(10.4)%

(A) Includes $9.8 million and $4.7 million for the three months ended March 31, 2019 and 2018, respectively, due to management contract reimbursements reported under the new revenue standard.

Revenues from Golf Operations

Revenues from golf operations decreased by $8.8 million primarily due to decreases of: (i) $13.9 million related to fewer Traditional Golf properties owned or operated in 2019, (ii) $1.8 million due to fewer rounds played related to unfavorable weather, partially offset by an increase of (iii) $5.9 million in revenues from management contracts and (iv) $0.7 million related to our Entertainment Golf venue that opened in Orlando, Florida in April 2018.

Sales of Food and Beverages

Sales of food and beverages decreased by $3.9 million primarily due to decreases of: (i) $4.4 million due to fewer Traditional Golf properties owned or operated in 2019 and (ii) $0.5 million due to lower traffic in our Traditional Golf properties, partially offset by an increase of $1.0 million related to our Entertainment Golf venue that opened in Orlando, Florida in April 2018.

Operating Expenses

Operating expenses decreased by $9.7 million primarily due to decreases of: (i) $16.1 million due to fewer Traditional Golf properties owned or operated in 2019, partially offset by increases of: (ii) $5.1 million in reimbursed expenses revenues from management contracts due to more courses managed in 2019 and (iii) $1.7 million related to our Entertainment Golf venue that opened in Orlando, Florida in April 2018.

Cost of Sales - Food and Beverages

Cost of sales - food and beverages decreased by $1.3 million primarily due to fewer Traditional Golf properties owned or operated in 2019 partially offset by our Entertainment Golf venue that opened in Orlando, Florida in April 2018.

General and Administrative Expense (including Acquisition and Transaction Expense)

General and administrative expense increased by $2.4 million primarily due to higher payroll expense related to the hiring of employees in our Entertainment Golf and corporate segments, including an increase of $0.9 million in stock-based compensation expense.

Depreciation and Amortization

Depreciation and amortization decreased by $0.6 million primarily due to fewer Traditional Golf properties owned or operated in 2019 as well as a decrease due to courses that remain classified as held-for-sale as of March 31, 2019, partially offset by depreciation on assets placed into service in April 2018 at our Entertainment Golf venue in Orlando, Florida.

Pre-Opening Costs

There was no significant change in pre-opening costs.

Impairment

During the three months ended March 31, 2019, we recorded impairment of $1.0 million on two Traditional Golf properties that were classified as held-for-sale and $3.1 million on a leased Traditional Golf property. During the three months ended March 31, 2018, we recorded impairment of $1.3 million on a Traditional Golf property that was reclassified as held-for-sale in March 2018.

Realized and Unrealized (Gain) on Investments

During the three months ended March 31, 2018, we recorded an unrealized gain of $0.2 million on the mark-to-market on the value of a derivative, which was unwound in December 2018.

Interest and Investment Income

There was no significant change in interest and investment income.

Interest Expense, Net

Interest expense, net decreased by $1.9 million primarily due to a decrease in interest expense related to the Traditional Golf term loan which was prepaid in December 2018.

Other Income (Loss), Net

Other income (loss), net increased by $5.9 million primarily due to a $5.2 million gain on the sale of three Traditional Golf properties during the three months ended March 31, 2019, compared to a $1.0 million loss due to golf properties exited during the three months ended March 31, 2018.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

Our primary sources of funds for liquidity consist of cash on hand, sales or repayments of assets (including sales of our owned golf properties), 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.

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 Entertainment and Traditional Golf businesses, working capital needs and operating expenses. However, we may have additional cash requirements with respect to executing our strategic objectives for our Entertainment Golf business and incremental capital investments related to our Traditional 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 I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018. 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 Entertainment and Traditional Golf businesses, plus (ii) the net cash flows from our security investments, including principal and sales proceeds, less (iii) Entertainment and Traditional 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), (ii) accretion of the golf membership deposit liabilities in interest expense, (iii) recognition of deferred revenue from initiation fee deposits, (iv) amortization of prepaid golf membership dues, (v) gains and losses from sales of assets, (vi) other-than-temporary impairment on our investments, as well as impairments of Traditional Golf properties, (vii) unrealized gains or losses on our investments, (viii) non-cash gains or losses associated with our early extinguishment of debt, (ix) non-cash gains on deconsolidation, and (x) 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 $1.4 million thus far in fiscal year2019, and our board of directors elected not to declare common stock dividends in the first three months of fiscal year 2019 to retain capital for growth. For the three months ended March 31, 2019, the Company reported net cash used in operating activities of $22.2 million, net cash used in investing activities of$5.0 million, net cash used in financing activities of$2.4 million, and cash and cash equivalents of $49.6 million as of March 31, 2019. As a result of our revocation of REIT election, effective January 1, 2017, we are no longer subject to the distribution requirements applicable to REITs. The timing and amount of distributions are in the sole discretion of our board of directors, which considers our earnings, financial performance and condition, debt service obligations and applicable debt covenants, tax considerations, as well as capital expenditure requirements, business prospects and other factors that our board of directors may deem relevant from time to time.

Update on Liquidity, Capital Resources and Capital Obligations

Cash – As of March 31, 2019, we had $49.6 million of available cash, including $6.8 million of working capital for the Traditional Golf business. OnMarch 13, 2019, we declared a quarterly preferred dividend of $1.4 million which was paid on April 29, 2019.

Short-term liquidity requirements – As of March 31, 2019, we expect our short-term liquidity requirements to include a total of approximately $85.0 to $95.0 million 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 Entertainment and Traditional 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 I, Item 1A. "Risk Factors" of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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 Entertainment and Traditional 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 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 Entertainment and Traditional 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 finance lease obligations, as summarized in Note 8 to our Consolidated Financial Statements included herein, existing at March 31, 2019 had contractual maturities as follows (in thousands):

	Nonrecourse	Recourse	Total
Period from April 1, 2019 through December 31, 2019	$ 5,366	$ —	$ 5,366
2020	5,437	—	5,437
2021	4,201	—	4,201
2022	2,747	—	2,747
2023	1,770	—	1,770
2024	254	—	254
Thereafter	200	51,004	51,204
Total	$ 19,975	$ 51,004	$ 70,979

Equity

Preferred Stock Dividends Paid

		Amount Per Share		
Declared for the three months ended	Paid	Series B	Series C	Series D
January 31, 2019	January 2019	$ 0.609	$ 0.503	$ 0.523
April 30, 2019	April 2019	$ 0.609	$ 0.503	$ 0.523

Cash Flow

Operating Activities

Net cash used in operating activities was $22.2 million for the three months ended March 31, 2019 and $15.5 million for the three months ended March 31, 2018. Changes in operating cash flow activities are described below:

- Operating cash flows increased by:
    - $1.8 million due to management fees paid in 2018 that were incurred in 2017 when the Company was externally managed.
- Operating cash flows decreased by:
    - $4.6 million in lower operating cash flows from Traditional Golf, primarily related to golf properties sold in December 2018; and
    - $3.9 million of payroll costs primarily due to increased headcount and bonuses paid in 2019 that were incurred in 2018.

Investing Activities

Investing activities used $5.0 million and $15.4 million during the three months ended March 31, 2019 and 2018, respectively. Uses of cash flow from investing activities consisted primarily of investments made in Entertainment Golf venues and Traditional Golf properties. Proceeds received from cash flows from investing activities consisted primarily of sale of property and equipment.

Financing Activities

Financing activities used $2.4 million and $1.8 million during the three months ended March 31, 2019 and 2018, respectively. Proceeds received from cash flow from financing activities consisted primarily of deposits received on golf memberships. Uses of cash flow from financing activities included the repayment of debt obligations and the payment of preferred dividends.

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, 2018.

CONTRACTUAL OBLIGATIONS

During the three months ended March 31, 2019, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2018. In addition, we had the following material contractual obligations:

- In March 2019, we executed a lease for office space in New York, New York for a term of seven years.

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.

There have been no material changes to our exposure to market risks as described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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").

On February 19, 2019, a former employee filed a class action complaint against the Company alleging that our Traditional Golf properties in the State of New York did not comply with state wage and hour laws, including New York Labor Law Section 190 et seq. and Section 196-d and 12 New York Codes, Rules and Regulations Part 146, and seeking monetary damages under these laws (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 or 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 business, financial position or results of operations.

Item 1A. Risk Factors

There have been no material changes with respect to the risk factors disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2018.

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

Exhibit Number	Exhibit Description
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).
4.6	Tax Benefits Preservation Plan, dated as of December 5, 2018, 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, 2018).
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).

Exhibit Number	Exhibit Description
10.4*	Amendment to the Letter Agreement dated December 21, 2017, by and between Drive Shack Inc. and Sarah L. Watterson.
10.5*	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).
10.6*	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).
10.7*	Letter Agreement, dated November 7, 2018, by and between Drive Shack Inc. and Kenneth A. May (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.6, filed on March 15, 2019).
10.8*	Letter Agreement, dated November 7, 2018, by and between Drive Shack Inc. and David M. Hammarley (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.7, filed on March 15, 2019).
10.9*	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).
10.10*	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).
10.11*	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).
10.12*	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).
10.13*	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).
10.14*	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).
10.15	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 Current Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).
10.16	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 Current Report on Form 8-K, Exhibit 10.1, filed on February 1, 2010).
10.17	Form of Indemnification Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.19, filed on August 8, 2014).
10.18*	Form of Drive Shack Inc. 2018 Omnibus Incentive Plan Director Restricted Stock Unit Award Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.15, filed on November 9, 2018).
10.19*	Non-Qualified Stock Option Award Agreement dated November 12, 2018, by and between Drive Shack Inc. and Kenneth A. May (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.18, filed on March 15, 2019).
10.20*	Incentive Stock Option Award Agreement dated November 12, 2018, by and between Drive Shack Inc. and Kenneth A. May (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.19, filed on March 15, 2019).

Exhibit Number	Exhibit Description
10.21*	Non-Qualified Stock Option Award Agreement dated November 12, 2018, by and between Drive Shack Inc. and David M. Hammarley (incorporated by reference to the Registrant’s Annual Report on Form 10-K, Exhibit 10.20, filed on March 15, 2019).
10.22*	Form of Drive Shack Inc. 2018 Omnibus Incentive Plan Executive Non-Qualified Stock Option 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.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

* Management contract or compensatory plan or arrangement.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized:

DRIVE SHACK INC.

By: /s/ Kenneth A. May

Kenneth A. May
Chief Executive Officer, President and Director

May 10, 2019

By: /s/ David M. Hammarley

David M. Hammarley
Chief Financial Officer

May 10, 2019

By: /s/ Lawrence A. Goodfield, Jr.

Lawrence A. Goodfield, Jr.
Chief Accounting Officer and Treasurer

May 10, 2019

EXHIBIT 10.4

DRIVE SHACK

Dear Sarah:

Reference is made to the Letter Agreement dated December 12, 2017, between Drive Shack Inc. (the " Company") and you (the "Letter Agreement"). This letter (this "Amendment") shall amend the terms and conditions of the Letter Agreement in the manner set forth below and shall be subject to ratification by the Compensation Committee of the Board of Directors of the Company (the "Board") or of the Board. For the avoidance of doubt, this letter shall be of full force and effect pending such ratification.

You will continue to be employed by the Company on an at-will basis, reporting to the President and Chief Executive Officer. For the avoidance of doubt, this letter will not impact your role as a member of the Board of Directors.

Your duties and responsibilities as an employee of the Company are expected to include providing strategic guidance to the to the Company's President and Chief Executive Officer, investor relations function and business development team.

You will be paid a lump sum cash payment in an amount equal to $1,200,000, less applicable withholding taxes, on or prior to April 14, 2019 (the "Lump Sum Payment"). The Lump Sum Payment will encompass your annual bonus in respect of services provided during the 2018 calendar year and payment for your services to be provided during the 2019 calendar year. The amount of any additional compensation to be paid to you in respect of your employment in 2019 or any future year will be determined by the Company in its sole discretion. Notwithstanding the foregoing, you and the Company may agree to allocate a portion of the Lump Sum Payment into ordinary payroll payments from the period beginning January 1, 2019 and ending April 14, 2019, any such allocations to be credited towards the Lump Sum Payment.

Except as otherwise amended hereby, all terms of the Letter Agreement shall remain in full force and effect.

This Amendment shall be construed, interpreted and governed in accordance with the laws of the State of New York without regard to conflict of laws principles. All actions and proceedings relating directly or indirectly to this Amendment shall be litigated in any state court of federal court located in the State of New York, County of New York.

This Amendment may be signed in counterparts, each of which shall be deemed an original, with the same effect as if the signatures were upon the same instrument.

Sincerely,
DRIVE SHACK INC.

By: ______________________
Kenneth A. May
Chief Executive Officer and President

By: ____________________
Nicholas M. Foley
Secretary

ACCCEPTED AND AGREED

____

Sarah L. Watterson

EXHIBIT 10.22

DRIVE SHACK INC.
2018 OMNIBUS INCENTIVE PLAN
[FORM OF] EXECUTIVE NON-QUALIFIED STOCK OPTION AWARD AGREEMENT

This Non-Qualified Stock Option Award Agreement (this "Award Agreement"), dated as of [●] (the "Date of Grant"), is made by and between Drive Shack Inc., a Maryland corporation (the "Company"), and [●] (the "Executive"). Any capitalized term that is used but not defined in this Award Agreement shall have the meaning ascribed to such term in the Drive Shack Inc. 2018 Omnibus Incentive Plan (as may be amended from time to time, the "Plan").

1. Grant of Stock Option. The Company hereby grants to the Executive an option to purchase [●] shares of Common Stock at an Exercise Price of $[●] per share (the "Option"), subject to all of the terms and conditions of this Award Agreement and the Plan.

2. Vesting.

(a) The shares of Common Stock subject to the Option shall vest in equal annual installments on each of the first three (3) anniversaries of the Date of Grant (each, a "Vesting Date"); provided that the Executive remains in continuous employment with the Company or an Affiliate thereof through, and has not given or received a notice of termination of such employment as of, the applicable Vesting Date.

(b) Except as set forth in Section 2(c) below, if the Executive's employment is terminated for any reason prior to the final Vesting Date, (i) this Award Agreement shall terminate and all rights of the Executive with respect to Options that have not vested shall immediately terminate, (ii) any such unvested Options shall be forfeited without payment of any consideration, and (iii) neither the Executive nor any of the Executive's successors, heirs, assigns, or personal representatives shall thereafter have any further rights or interests in such unvested Options.

(c) If the Executive's employment is terminated prior to the final Vesting Date either (i) by the Company without Cause, (ii) by the Executive for Good Reason (as defined below) or (iii) as a result of the Executive's death or Disability (each, a "Qualifying Termination"), the portion of the Option that would have vested on the next Vesting Date had the Executive remained in employment with the Company shall immediately vest. For purposes of this Award Agreement, "Good Reason" means, in each case without the Executive's consent, as follows: (i) any reduction in the Executive's base salary or annual bonus target amount; (ii) a material diminution in the Executive's title, status, duties, responsibilities or authority; or (iii) a material breach by the Company of the Executive's individual offer letter with Company; provided, that, in no event shall any such action constitute Good Reason unless (x) the Executive provides written notice to the Company of such action within thirty (30) days after it occurs, (y) the Company fails to materially cure such action within fifteen (15) business days after the

Executive provides such notice, and (z) the Executive terminates employment within ten (10) business days after the end of such cure period.

3. Timing of Exercise. Following the vesting of the Option as set forth in Section 2 hereof, the Executive may exercise all or any portion of such vested Option at any time prior to the earliest to occur of:

(a) The 10th anniversary of the Date of Grant;

(b) The 1st anniversary of the date of a Qualifying Termination;

(c) 90 days following the Executive's termination of employment with the Company and its Affiliates as a result of a voluntary termination by Executive other than for Good Reason; and

(d) The close of business on the last business day immediately prior to the date of the Executive's (A) termination of employment by the Company for Cause or (B) breach of any restrictive covenants set forth in any agreement or other arrangement between the Executive and the Company or any of its Affiliates.

4. Method of Exercise. The Executive may exercise all or any portion of the Option by giving written notice of exercise to the Company specifying the number of shares of Common Stock to be exercised. Unless otherwise determined by the Administrator, the payment of the aggregate exercise price of the shares of Common Stock being exercised shall be satisfied through a cashless exercise procedure pursuant to which the Company will withhold a number of shares of Common Stock otherwise issuable upon exercise of the Option with a Fair Market Value equal to the aggregate exercise price.

5. Rights as Stockholder. The Executive shall have no rights of a stockholder with respect to the shares of Common Stock subject to the Option (including the right to vote and the right to receive distributions or dividends) unless and until shares of Common Stock are issued in respect thereof in accordance with Section 4 hereof.

6. Award Agreement Subject to Plan. This Award 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 Award Agreement and the provisions of the Plan, the provisions of the Plan shall govern.

7. Acknowledgement of Protective Covenants. The Participant hereby acknowledges and agrees that (i) the Participant is subject to all of the provisions of the "Protective Covenants" section of the Participant's offer letter with the Company (including, without limitation, any provisions restricting the Participant from competing with the Company), each of which is incorporated into this Agreement by reference, and (ii) the Company would not have granted the Option to the Participant in the absence of such Protective Covenants.

8. No Rights to Continuation of Employment. Nothing in the Plan or this Award Agreement shall confer upon the Executive any right to continue in the employ of the Company or any Affiliate thereof or shall interfere with or restrict the right of the Company or its Affiliates to terminate the Executive's employment any time for any reason whatsoever, with or without cause.

9. Tax Withholding. The Company shall be entitled to require a cash payment by or on behalf of the Executive and/or to deduct from the shares of Common Stock otherwise issuable hereunder or other compensation payable to the Executive the amount of any federal, state or local withholding taxes in respect of the Option, its exercise or any payment or transfer under or with respect to the Option, in each case in accordance with the terms of the Plan.

10. Governing Law. This Award Agreement shall be governed by, interpreted under, and construed and enforced in accordance with the internal laws, and not the laws pertaining to conflicts or choices of laws, of the State of Maryland applicable to agreements made and to be performed wholly within the State of Maryland.

11. Award Agreement Binding on Successors. The terms of this Award Agreement shall be binding upon the Executive and upon the Executive'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.

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

13. Necessary Acts. The Executive 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 Award Agreement, including but not limited to all acts and documents related to compliance with federal and/or state securities and/or tax laws.

14. Severability. Should any provision of this Award 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 Award 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 Award Agreement. Moreover, if one or more of the provisions contained in this Award 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.

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

16. 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.

17. Counterparts; Electronic Signature. This Award 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 Executive's electronic signature of this Award Agreement shall have the same validity and effect as a signature affixed by the Executive's hand.

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

19. Set-Off. The Executive hereby acknowledges and agrees, without limiting the rights of the Company or any Affiliate thereof otherwise available at law or in equity, that, to the extent permitted by law, any amount due to the Executive under this Award Agreement may be reduced by, and set-off against, any or all amounts or other consideration payable by the Executive to the Company or any of its Affiliates under any other agreement or arrangement between the Executive 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.

(a) [Signature Page Follows]

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

DRIVE SHACK INC.

By____________

Print Name:__________

Title:____________

[**EXECUTIVE**]

Signature __________

Print Name:__________

[Signature Page to Executive Non-Qualified Stock Option Award Agreement]

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Kenneth A. May, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2019

/s/ Kenneth A. May

Kenneth A. May
Chief Executive Officer, President and Director

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, David M. Hammarley, certify that:

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

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d–15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2019

/s/ David M. Hammarley

David M. Hammarley
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Drive Shack Inc. (the "Company") for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Kenneth A. May 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 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/ Kenneth A. May

Kenneth A. May
Chief Executive Officer, President and Director

May 10, 2019

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.

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Drive Shack Inc. (the "Company") for the quarterly period ended March 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David M. Hammarley, 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/ David M. Hammarley
David M. Hammarley
Chief Financial Officer

May 10, 2019

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.