Drive Shack Inc.

10670 N. Central Expressway
Suite 700
75231

A Maryland Corporation

Quarterly Update
Period ending September 30, 2023

This report is divided into two sections, as follows:

- Part 1: Quarterly Report for the Period Ending September 30, 2023 (the 'Quarterly Report')

- Part 2: OTCQX Q3 2023 Supplement (the 'Quarterly Supplement')

Drive Shack Inc.

10670 N. Central Expressway
Suite 700
75231

A Maryland Corporation

Quarterly Report For the period ending September 30, 2023 (the "Reporting Period")

Securities:

Title of each class	Trading Symbols(s)	Name of each exchange on which registered
Common Stock, $0.01 par value per share	DSHK	Over the Counter Markets (OCTMKTS)
9.75% Series B Cumulative Redeemable Preferred Stock, $0.01 par value per share	DSHKP	Over the Counter Markets (OCTMKTS)
8.05% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share	DSHKN	Over the Counter Markets (OCTMKTS)
8.375% Series D Cumulative Redeemable Preferred Stock, $0.01 par value per share	DSHKO	Over the Counter Markets (OCTMKTS)

Securities registered pursuant to Section 12(g) of the Act: None

The aggregate market value of the common stock held by non-affiliates as of December 31, 2022 (computed based on the closing price on the last business day of the registrant's most recently completed second quarter as reported) was: $15,705,453.

The number of shares outstanding of the registrant's common stock was 92,385,019 as of June 30, 2023, and 159,383,548 as of September 30, 2023.

Indicate by check mark whether the company is a shell company (as defined in Rule 405 of the Securities Act of 1933 and Rule 12b-2 of the Exchange Act of 1934):

Yes: □ No: ✓

Indicate by check mark whether the company's shell status has changed since the previous reporting period:

Yes: □ No: ✓

Indicate by check mark whether a Change in Control of the company has occurred over this reporting period:

Yes: □ No: ✓

Telephone: (646) 585-5591
Corporate Website: https://ir.driveshack.com/

DRIVE SHACK INC.
QUARTERLY REPORT
INDEX

PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(unaudited) September 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	$ 13,121	$ 12,345
Restricted cash	4,084	4,373
Accounts receivable, net	6,725	8,305
Real estate assets, trading	689	—
Real estate securities, available-for-sale	—	1,631
Other current assets	24,240	24,872
Total current assets	48,859	51,526
Restricted cash, noncurrent	216	216
Property and equipment, net of accumulated depreciation	219,970	198,442
Operating lease right-of-use assets	177,413	189,993
Intangibles, net of accumulated amortization	13,304	14,108
Other assets	6,356	3,696
Total assets	$ 466,118	$ 457,981
Liabilities and Equity		
Current liabilities		
Obligations under finance leases	$ 3,348	$ 4,761
Membership deposit liabilities	26,367	22,479
Accounts payable and accrued expenses	31,463	41,477
Deferred revenue	19,717	29,490
Short-term debt	1,029	—
Other current liabilities	32,429	28,904
Total current liabilities	114,353	127,111
Credit facilities and obligations under finance leases - noncurrent	3,609	5,849
Operating lease liabilities - noncurrent	177,395	177,867
Long-term debt	14,540	—
Junior subordinated notes payable	51,153	51,169
Membership deposit liabilities, noncurrent	109,386	109,762
Deferred revenue, noncurrent	13,558	11,303
Other liabilities	1,476	1,877
Total liabilities	$ 485,470	$ 484,938

Equity				
Preferred stock, $0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference $25.00 per share, issued and outstanding as of September 30, 2023 and December 31, 2022	$	61,583	$	61,583
Common stock, $0.01 par value, 1,000,000,000 shares authorized, 103,060,473 and 92,385,019 shares issued and outstanding at September 30, 2023 and December 31, 2022, respectively		1,031		924
Additional paid-in capital		3,247,540		3,232,104
Accumulated deficit		(3,336,124)		(3,326,357)
Accumulated other comprehensive loss		—		(281)
Total deficit of the company	$	(25,970)	$	(32,027)
Noncontrolling interest		6,618		5,070
Total deficit	$	(19,352)	$	(26,957)
Total liabilities and deficit	$	466,118	$	457,981

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenues				
Golf operations	$ 78,936	$ 70,872	$ 214,767	$ 193,732
Sales of food and beverages	21,400	17,802	61,147	50,612
Total revenues	100,336	88,674	275,914	244,344
Operating costs				
Operating expenses	79,414	70,026	213,506	190,638
Cost of sales - food and beverages	5,713	4,985	16,331	14,134
General and administrative expense	5,491	8,572	18,049	29,190
Depreciation and amortization	8,572	6,819	21,998	19,144
Pre-opening costs	1,957	2,145	4,869	4,830
Loss on lease terminations and impairment	36	1,318	70	16,350
Total operating costs	101,183	93,865	274,823	274,286
Operating income (loss)	(847)	(5,191)	1,091	(29,942)
Other income (expenses)				
Interest and investment income	298	220	71	636
Interest expense, net	(2,857)	(2,608)	(8,828)	(8,802)
Other income, net	192	920	2,095	4,559
Total other income (expenses)	(2,367)	(1,468)	(6,662)	(3,607)
Loss before income tax	(3,214)	(6,659)	(5,571)	(33,549)
Income tax (income) expense	(80)	472	24	2,061
Consolidated net loss	(3,134)	(7,131)	(5,595)	(35,610)
Less: net income (loss) attributable to noncontrolling interest	(59)	21	(13)	(60)
Net loss attributable to the Company	(3,075)	(7,152)	(5,582)	(35,550)
Preferred dividends	(1,395)	(1,395)	(4,185)	(4,185)
Loss applicable to common stockholders	$ (4,470)	$ (8,547)	$ (9,767)	$ (39,735)
Loss applicable to common stock, per share				
Basic	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.43)
Diluted	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.43)
Weighted average number of shares of common stock outstanding				
Basic	95,787,087	92,385,019	93,523,211	92,339,823
Diluted	95,787,087	92,385,019	93,523,211	92,339,823

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net loss	$ (3,134)	$ (7,131)	$ (5,595)	$ (35,610)
Other comprehensive income (loss):				
Net unrealized (gain) loss on available-for-sale securities	—	(1,004)	281	(1,997)
Other comprehensive (loss) income	—	(1,004)	281	(1,997)
Total comprehensive loss	$ (3,134)	$ (8,135)	$ (5,314)	$ (37,607)
Comprehensive (loss) income attributable to noncontrolling interest	(59)	21	(13)	(60)
Comprehensive loss attributable to the Company	$ (3,075)	$ (8,156)	$ (5,301)	$ (37,547)

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (unaudited)
(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 (loss)	Noncontrolling Interest	Total Equity (Deficit)
Equity (deficit) - December 31, 2022	2,463,321	$ 61,583	92,385,019	$ 924	$ 3,232,104	$ (3,326,357)	$ (281)	$ 5,070	$ (26,957)
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	20	—	—	—	20
Capital Contribution	—	—	—	—	42	—	—	999	1,041
Capital Distribution	—	—	—	—	—	—	—	(119)	(119)
Comprehensive income (loss)									
Net (loss) income	—	—	—	—	—	(4,933)	—	18	(4,915)
Other comprehensive income	—	—	—	—	—	—	281	—	281
Total comprehensive loss									$ (4,634)
Equity (deficit) - March 31, 2023	2,463,321	$ 61,583	92,385,019	$ 924	$ 3,232,166	$ (3,332,685)	$ —	$ 5,968	$ (32,044)
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	21	—	—	—	21
Capital Contribution	—	—	—	—	2,039	—	—	808	2,847
Capital Distribution	—	—	—	—	—	—	—	(127)	(127)
Comprehensive income (loss)									
Net income	—	—	—	—	—	2,426	—	28	2,454
Total comprehensive income									$ 2,454
Equity (deficit) - June 30, 2023	2,463,321	$ 61,583	92,385,019	$ 924	$ 3,234,226	$ (3,331,654)	$ —	$ 6,677	$ (28,244)
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	21	—	—	—	21
Rights Offering, net	—	—	10,675,454	107	13,293	—	—	—	13,400
Comprehensive income									
Net income (loss)	—	—	—	—	—	(3,075)	—	(59)	(3,134)
Other comprehensive loss	—	—	—	—	—	—	—	—	—
Total comprehensive income									$ (3,134)
Equity (deficit) - September 30, 2023	2,463,321	$ 61,583	103,060,473	$ 1,031	$ 3,247,540	$ (3,336,124)	$ —	$ 6,618	$ (19,352)

	Drive Shack Inc. Stockholders								
	Preferred Stock		Common Stock						
	Shares	Amount	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comp. Income (loss)	Noncontrolling Interest	Total Equity (Deficit)
Equity (deficit) - December 31, 2021	2,463,321	$ 61,583	92,093,425	$ 921	$ 3,233,608	$ (3,268,876)	$ 1,163	$ 1,456	$ 29,855
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	(696)	—	—	—	(696)
Shares issued from options and restricted stock units	—	—	269,420	—	—	—	—	—	—
Contributed Capital	—	—	—	—	—	—	—	3	3
Capital Distribution	—	—	—	—	—	—	—	(40)	(40)
Comprehensive income (loss)									
Net income (loss)	—	—	—	—	—	(18,966)	—	53	(18,913)
Other comprehensive loss	—	—	—	—	—	—	—	—	—
Total comprehensive loss									$ (18,913)
Equity (deficit) - March 31, 2022	2,463,321	$ 61,583	92,362,845	$ 921	$ 3,232,912	$ (3,289,237)	$ 1,163	$ 1,472	$ 8,814
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	139	—	—	—	139
Shares issued from options and restricted stock units	—	—	—	—	—	—	—	—	—
Contributed Capital	—	—	22,174	3	—	—	—	—	3
Capital Distribution	—	—	—	—	(727)	—	—	727	—
Comprehensive income (loss)									—
Net income (loss)	—	—	—	—	—	(9,433)	—	(134)	(9,567)
Other comprehensive loss	—	—	—	—	—	—	(993)	—	(993)
Total comprehensive loss									$ (10,560)
Equity (deficit) - June 30, 2022	2,463,321	$ 61,583	92,385,019	$ 924	$ 3,232,324	$ (3,300,065)	$ 170	$ 2,065	$ (2,999)
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	110	—	—	—	110
Contributed Capital	—	—	—	—	(928)	—	—	928	—
Capital Distribution	—	—	—	—	—	—	—	(245)	(245)
Comprehensive income (loss)									
Net loss	—	—	—	—	—	(7,152)	—	21	(7,131)
Other comprehensive loss	—	—	—	—	—	—	(1,004)	—	(1,004)
Total comprehensive loss									$ (8,135)
Equity (deficit) - September 30, 2022	2,463,321	$ 61,583	92,385,019	$ 924	$ 3,231,506	$ (3,308,612)	$ (834)	$ 2,769	$ (12,664)

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)
(Dollars in thousands, except share data)

	Nine Months Ended September 30,	
	2023	**2022**
Cash Flows From Operating Activities		
Net loss	$ (5,595)	$ (35,610)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,998	19,144
Amortization of discount and premium	167	(557)
Other amortization	4,133	7,319
Amortization of revenue on golf membership deposit liabilities	—	(1,708)
Amortization of prepaid golf membership dues	(10,098)	(11,804)
Non-cash operating lease expense	12,427	6,251
Stock-based compensation	62	(444)
Loss on lease terminations and impairment	70	16,350
Gain from insurance proceeds for property loss	(1,275)	(3,033)
Other (gains) losses, net	308	70
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	(6,358)	(4,347)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	(4,870)	20,280
Net cash provided by operating activities	10,969	11,911
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	8	—
Insurance proceeds for property loss	1,275	3,033
Acquisition and additions of property and equipment and intangibles	(37,719)	(50,969)
Net cash used in investing activities	(36,436)	(47,936)
Cash Flows From Financing Activities		
Borrowings under debt obligations	16,174	—
Repayments of debt obligations	(3,922)	(4,182)
Payment of deferred financing costs	(1,643)	—
Golf membership deposits received	—	13
Issuance of common stock	13,400	3
Capital contributions received	4,133	—
Capital distribution paid	(245)	(285)
Preferred stock dividends paid	(1,395)	(4,185)
Other financing activities	(548)	(1,684)
Net cash provided by (used in) financing activities	25,954	(10,320)
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	487	(46,345)
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period	16,934	62,564
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period	$ 17,421	$ 16,219
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends accumulated but not paid	$ 3,720	$ 930
Additions to finance lease assets and liabilities	$ 95	$ 1,548
Additions to property and equipment and accounts payable	$ (2,225)	$ (13,081)
Additions for right of use assets in exchange for new operating lease liabilities	$ 2,330	$ 30,756
Cash paid during the period for interest expense	$ 2,886	$ 1,745
Cash paid during the period for income taxes	$ 1,605	$ 1,985

See notes to unaudited Consolidated Financial Statements

Note 1. ORGANIZATION

Drive Shack Inc., which is referred to in this Quarterly Report on Form 10-Q, as Drive Shack or the Company, is an owner and operator of golf-related leisure and entertainment venues focused on bringing people together through competitive socializing. The Company, a Maryland corporation, was formed in 2002, and its common stock is traded on the OCTMKTS under the symbol "DSHK."

The Company conducts its business through the following segments: (i) entertainment golf, (ii) traditional golf and (iii) corporate. For a further discussion of the reportable segments, see Note 4.

As of September 30, 2023, the Company's entertainment golf segment was comprised of twelve owned or leased entertainment golf venues across nine states and the District of Columbia with locations in Orlando, Florida; West Palm Beach, Florida; Raleigh, North Carolina; Richmond, Virginia; The Colony, Texas; Charlotte, North Carolina; Washington, D.C; Chicago, Illinois; Pittsburgh, Pennsylvania; Houston, Texas; Kansas City, Missouri; and Minneapolis, Minnesota.

The Company's traditional golf segment is one of the largest operators of traditional golf properties in the United States. As of September 30, 2023, the Company owned, leased or managed fifty-two (52) traditional golf properties across seven states.

The corporate segment consists primarily of securities and other investments and executive management.

Note 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 U.S. generally accepted accounting principles or GAAP for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. The portions of equity in consolidated subsidiaries that are not attributable, directly or indirectly, to us are presented as noncontrolling interest. All significant intercompany accounts and transactions have been eliminated. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles, or 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, 2022 and notes thereto included in the Company's Annual Report on Form 10-K/A filed with the Securities and Exchange Commission (the "SEC") on April 27, 2023. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K/A for the fiscal year ended December 31, 2022.

Reclassifications -- Certain reclassifications have been made to prior year balance sheet to conform to classifications used in the current year. These reclassifications had no impact on net loss, equity or cash flows as previously reported.

Use of Estimates – 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.

Seasonality – Seasonality can affect our results of operations. Our traditional golf business is subject to seasonal fluctuations as colder temperatures and shorter days reduce the demand for outdoor activities. As a result, the traditional golf business generates a disproportionate share of its annual revenue in the second and third quarters of each year. In addition, our Drive Shack and Puttery venues could be significantly impacted on a season-to-season basis, based on corporate event and social gathering volumes during holiday seasons and school vacation schedules. For this reason, a quarter-to-quarter comparison may not be a good indicator of our current and/or future performance.

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 the balance sheet with the Right of Use (“ROU”) assets in "Operating lease right-of-use assets" and lease liabilities are recognized in "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 an amount equal to the lease payments for a 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. Operating leases are subsequently amortized into lease cost on a straight-line basis. Depreciation of the finance lease ROU assets is 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 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.

Impairment of Long-lived 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 and right-of-use 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 is greater than the expected undiscounted cash flows, the asset is considered impaired and 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.

(Dollars in tables in thousands, except share data)

Cash and Cash Equivalents and Restricted Cash — The Company considers all highly liquid short-term investments with maturities of 90 days or less when purchased to be cash equivalents. Substantially all amounts on deposit with major financial institutions exceed insured limits. The Company has not experienced any losses in the accounts and believes that it is not exposed to significant credit risk because the accounts are at major financial institutions.

The following table summarizes the Company's Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent:

	September 30, 2023	December 31, 2022
Cash and cash equivalents	$ 13,121	12,345
Restricted cash	4,084	4,373
Restricted cash, noncurrent	216	216
Total Cash and cash equivalents, Restricted cash and Restricted cash, noncurrent	$ 17,421	$ 16,934

Accounts Receivable, Net — Accounts receivable are stated at amounts due from customers, net of an allowance for doubtful accounts of $0.4 million as of September 30, 2023 and December 31, 2022. The allowance for doubtful accounts is based upon several factors including the length of time the receivables are past due, historical payment trends, current economic factors, and our expectations of future events that affect collectability. Collateral is generally not required.

Other Current Assets — The following table summarizes the Company's other current assets:

	September 30, 2023	December 31, 2022
Managed property receivables	$ 14,150	$ 10,559
Prepaid expenses	3,474	2,421
Deposits	590	1,307
Inventory	3,463	2,828
Miscellaneous current assets, net	2,563	7,757
Other current assets	$ 24,240	$ 24,872

Other Assets — The following table summarizes the Company's other assets:

	September 30, 2023	December 31, 2022
Prepaid expenses	$ —	$ 182
Deposits	6,222	3,014
Miscellaneous assets, net	134	500
Other assets	$ 6,356	$ 3,696

Other Current Liabilities — The following table summarizes the Company's other current liabilities:

	September 30, 2023	December 31, 2022
Operating lease liabilities	$ 19,265	$ 18,946
Accrued rent	5,208	3,803
Dividends payable	3,720	930
Miscellaneous current liabilities	4,236	5,225
Other current liabilities	$ 32,429	$ 28,904

(Dollars in tables in thousands, except share data)

Membership Deposit Liabilities - Initiation fees are non-refundable and recorded as revenue over the expected seven year life of an active membership. Until 2021, private country club members generally paid an advance initiation deposit upon their acceptance as a member to the respective country club that is refundable 30 years after the date of acceptance as a member. The difference between the initiation deposit paid by the member and the present value of the refund obligation is deferred and recognized into golf operations revenue in the Consolidated Statements of Operations on a straight-line basis over the expected life of an active membership, which is estimated to be seven years. The present value of the refund obligation is recorded as a membership deposit liability in the Consolidated Balance Sheets and accretes over a 30-year nonrefundable term using the effective interest method. This accretion is recorded as interest expense in the Consolidated Statements of Operations.

In 2002, American Golf Corporation ("AGC"), when it was owned by a previous owner, entered into a Restated Membership Deposit Assumption Agreement, with two trusts established by a previous owner of AGC (the “Trusts”) under which the Trusts agreed to unconditionally assume the obligations of AGC to refund certain membership deposit liabilities ("MDLs") in exchange for shares in AGC. The MDLs assumed were refundable 30 years from the date of acceptance of the member with the first liabilities assumed by the Trusts becoming refundable in 2020. The total redemption value of membership deposit liabilities assumed by the Trusts was $181.9 million. No asset was recorded at the time of our acquisition of AGC in recognition of this assumption agreement for the $181.9 million of liabilities assumed by the Trusts for the following reasons: 1) the substantial time period between the assumption of the liabilities and the first liabilities becoming refundable; 2) the inability of AGC to verify and monitor the assets of the Trusts to ensure the ability to perform under the terms of the assumption agreements; 3) the fact that the Trusts are not required to maintain any assets that would support such performance; 4) the Trust settlors were not required contractually to fund the Trusts; and 5) the Company does not have the ability to determine the likelihood that the Trusts will meet their obligations. In the event the Trusts are not able to fulfill their obligations, the Company would be responsible for refunding the outstanding balance of the MDL and therefore, recognizes these MDLs on its balance sheet. Though the Trusts initially assumed $181.9 million of MDLs the balance of related MDLs carried on the books of AGC, as of September 30, 2023, has been reduced to an undiscounted nominal value of $113.9 million through various assignments to third parties and partial membership refunds due to membership transfers. To-date, the Trust has met all of their obligations that have come due for which the Trust assumed responsibility under the Restated Membership Deposit Assumption Agreement. As of September 30, 2023 the Trusts had refunded a total of approximately $1.0 million of MDLs, all of which they were obligated to pay under the terms of the assumption agreements.

Other Income (Loss), Net — These items are comprised of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Collateral management fee income, net	$ —	$ 22	$ —	$ 92
Insurance proceeds	—	662	1,275	4,086
Gain (loss) on sale of long-lived assets and intangibles	—	—	8	(38)
Loss on Lease Modification/Termination	—	(3)	—	(56)
Other gain (loss)	192	239	812	475
Other gain (loss), net	$ 192	$ 920	$ 2,095	$ 4,559

(Dollars in tables in thousands, except share data)

Note 3. REVENUES

The majority of the Company's revenue is recognized 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. Revenue from membership dues is recognized in the month earned. Membership dues received in advance are included in deferred revenue and recognized as revenue ratably over the appropriate period, which is generally twelve months or less for private club members and the following month for The Players Club members.

The Company's revenue is primarily generated within the entertainment golf and traditional golf segments. The following tables disaggregate revenue by category: entertainment golf venues, public golf properties, private golf properties (owned and leased), managed golf properties, and Corporate other income.

	Three Months Ended September 30, 2023						Nine Months Ended September 30, 2023					
	Ent. golf venues	Public golf proper-	Private golf proper-	Managed golf proper-	Corporate	Total	Ent. golf venues	Public golf proper-	Private golf proper-	Managed golf proper-	Corporate	Total
Golf operations	$11,321	$ 36,776	$ 13,433	$ 17,406	$ —	$78,936	$32,101	$ 92,441	$ 41,805	$ 48,420	$ —	$214,767
Sales of food and beverages	9,794	9,244	2,362	—	—	21,400	29,824	24,430	6,893	—	—	61,147
Total revenues	$21,115	$ 46,020	$ 15,795	$ 17,406	$ —	$ 100,336	$61,925	$ 116,871	$ 48,698	$ 48,420	$ —	$275,914

	Three Months Ended September 30, 2022						Nine Months Ended September 30, 2022					
	Ent. golf venues	Public golf proper-	Private golf proper-	Managed golf proper-	Corporate	Total	Ent. golf venues	Public golf proper-	Private golf proper-	Managed golf proper-	Corporate	Total
Golf operations	$ 9,067	$ 31,853	$ 11,874	$ 17,881	$ 197	$70,872	$22,892	$ 82,099	$ 38,155	$ 49,998	$ 588	$193,732
Sales of food and beverages	7,617	8,232	1,953	—	—	17,802	23,682	21,208	5,722	—	—	50,612
Total revenues	$16,684	$ 40,085	$ 13,827	$ 17,881	$ 197	$88,674	$46,574	$ 103,307	$ 43,877	$ 49,998	$ 588	$244,344

(A) Includes $16.1 million and $43.6 million for the three and nine months ended September 30, 2023, and $16.4 million and $44.6 million for the three and nine months ended September 30, 2022, respectively, related to management contract reimbursements reported under ASC 606.

Note 4. SEGMENT REPORTING

The Company currently has three reportable segments: (i) entertainment golf, (ii) traditional golf and (iii) corporate. The chief operating decision maker ("CODM") for each segment is the chief executive officer and president, who reviews discrete financial information for each reportable segment to manage the Company, including resource allocation and performance assessment.

The Company's entertainment golf segment, launched in 2018, is comprised of Drive Shack venues that feature tech-enabled hitting bays with in-bay dining, full-service restaurants, bars, and event spaces and Puttery venues that feature indoor putting courses anchored by bars and other social spaces as well as a full-service kitchen that serve to create engaging and fun experiences for guests. As of September 30, 2023, the Company owned or leased four Drive Shack venues across three states which are located in Orlando, Florida; West Palm Beach, Florida; Raleigh, North Carolina; and Richmond, Virginia, and leased eight Puttery venues located in The Colony, Texas; Charlotte, North Carolina; Washington, D.C.; Chicago, Illinois; Pittsburgh, Pennsylvania; Houston, Texas; Kansas City, Missouri; and Minneapolis, Minnesota.

The Company's traditional golf segment is one of the largest operators of golf courses and country clubs in the United States. As of September 30, 2023, the Company owned, leased or managed 52 traditional golf properties across seven 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).

(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:

Nine Months Ended September 30, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	$ 32,105	$ 182,662	$ —	$ 214,767
Sales of food and beverages	29,824	31,323	—	61,147
Total revenues	61,929	213,985	—	275,914
Operating costs				
Operating expenses	39,751	172,977	778	213,506
Cost of sales - food and beverages	7,933	8,398	—	16,331
General and administrative expense (A)	986	10,718	6,345	18,049
Depreciation and amortization	12,965	7,551	1,482	21,998
Pre-opening costs (B)	4,813	5	51	4,869
Loss on lease terminations and impairment	—	70	—	70
Total operating costs	66,448	199,719	8,656	274,823
Operating (loss) income	(4,519)	14,266	(8,656)	1,091
Other income (expenses)				
Interest and investment income	—	36	35	71
Interest expense (C)	(122)	(4,490)	(4,216)	(8,828)
Other income, net	—	1,103	992	2,095
Total other (expense) income	(122)	(3,351)	(3,189)	(6,662)
Income tax expense	—	—	24	24
Net (loss) income	(4,641)	10,915	(11,869)	(5,595)
Less: net loss attributable to NCI	(13)	—	—	(13)
Net (loss) income attributable to the company	(4,628)	10,915	(11,869)	(5,582)
Preferred dividends	—	—	(4,185)	(4,185)
Net (loss) income applicable to common stockholders	$ (4,628)	$ 10,915	$ (16,054)	$ (9,767)

September 30, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
Total assets	$ 235,666	$ 213,088	$ 17,364	$ 466,118
Total liabilities	$ 105,938	$ 285,424	$ 94,108	$ 485,470
Preferred stock	$ —	$ —	$ 61,583	$ 61,583
Noncontrolling interest	$ 6,618	$ —	$ —	$ 6,618
Equity (deficit) attributable to common stockholders	$ 123,110	$ (72,336)	$ (138,327)	$ (87,553)
Additions to property and equipment (including finance leases) during the nine months ended September 30, 2023	$ 33,042	$ 4,556	$ 121	$ 37,719

(Dollars in tables in thousands, except share data)

Three Months Ended September 30, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	$ 11,321	$ 67,615	$ —	$ 78,936
Sales of food and beverages	9,794	11,606	—	21,400
Total revenues	21,115	79,221	—	100,336
Operating costs				
Operating expenses	14,390	65,024	—	79,414
Cost of sales - food and beverages	2,628	3,085	—	5,713
General and administrative expense (A)	—	3,902	1,589	5,491
Depreciation and amortization	4,783	2,549	1,240	8,572
Pre-opening costs (B)	1,936	5	16	1,957
Loss on lease terminations and impairment	—	36	—	36
Total operating costs	23,737	74,601	2,845	101,183
Operating (loss) income	(2,622)	4,620	(2,845)	(847)
Other income (expenses)				
Interest and investment income	—	12	286	298
Interest expense (C)	(44)	(1,156)	(1,657)	(2,857)
Other (loss) income, net	—	(36)	228	192
Total other (expenses) income	(44)	(1,180)	(1,143)	(2,367)
Income tax expense	—	—	(80)	(80)
Net (loss) income	(2,666)	3,440	(3,908)	(3,134)
Less: net loss attributable to NCI	(59)	—	—	(59)
Net (loss) gain attributable to the company	(2,607)	3,440	(3,908)	(3,075)
Preferred dividends	—	—	(1,395)	(1,395)
Net (loss) income applicable to common stockholders	$ (2,607)	$ 3,440	$ (5,303)	$ (4,470)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2023

(Dollars in tables in thousands, except share data)

Nine Months Ended September 30, 2022	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	$ 22,892	$ 170,252	$ 588	$ 193,732
Sales of food and beverages	23,682	26,930	—	50,612
Total revenues	46,574	197,182	588	244,344
Operating costs				
Operating expenses	26,968	163,535	135	190,638
Cost of sales - food and beverages	6,360	7,774	—	14,134
General and administrative expense [(A)]	5,615	9,280	14,295	29,190
Depreciation and amortization	10,621	8,189	334	19,144
Pre-opening costs [(C)]	4,830	—	—	4,830
Loss on lease terminations and impairment	15,366	984	—	16,350
Total operating costs	69,760	189,762	14,764	274,286
Operating (loss) income	(23,186)	7,420	(14,176)	(29,942)
Other income (expenses)				
Interest and investment income	7	52	577	636
Interest expense [(D)]	(156)	(7,876)	(770)	(8,802)
Other income (loss), net	(413)	4,071	901	4,559
Total other income (expenses)	(562)	(3,753)	708	(3,607)
Income tax expense	63	2	1,996	2,061
Net (loss) income	(23,811)	3,665	(15,464)	(35,610)
Less: net loss attributable to NCI	—	—	(60)	(60)
Net (loss) income attributable to the company	(23,811)	3,665	(15,404)	(35,550)
Preferred dividends	—	—	(4,185)	(4,185)
(Loss) income applicable to common stockholders	$ (23,811)	$ 3,665	$ (19,589)	$ (39,735)

September 30, 2022	Entertainment Golf	Traditional Golf	Corporate	Total
Total assets	$ 202,111	$ 250,187	$ 3,393	$ 455,691
Total liabilities	$ 76,290	$ 326,093	$ 65,972	$ 468,355
Preferred stock	$ —	$ —	$ 61,583	$ 61,583
Noncontrolling interest	$ 3,507	$ —	$ (738)	$ 2,769
Equity	$ 122,314	$ (75,906)	$ (123,424)	$ (77,016)
Additions to property and equipment (including finance leases) during the nine months ended September 30, 2022	$ 5,927	$ 3,976	$ 1,307	$ 11,210

(Dollars in tables in thousands, except share data)

Three Months Ended September 30, 2022	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	$ 9,067	$ 61,608	$ 197	$ 70,872
Sales of food and beverages	7,617	10,185	—	17,802
Total revenues	16,684	71,793	197	88,674
Operating costs				
Operating expenses	10,183	59,752	91	70,026
Cost of sales - food and beverages	1,916	3,069	—	4,985
General and administrative expense (A)	815	2,463	5,294	8,572
General and administrative expense - acquisition and transaction expenses (B)	—	—	—	—
Depreciation and amortization	3,779	2,916	124	6,819
Pre-opening costs (C)	2,145	—	—	2,145
Loss on lease terminations and impairment	318	1,000	—	1,318
Total operating costs	19,156	69,200	5,509	93,865
Operating (loss) income	(2,472)	2,593	(5,312)	(5,191)
Other income (expenses)				
Interest and investment income	4	11	205	220
Interest expense (D)	(46)	(2,549)	(13)	(2,608)
Capitalized interest (D)	—	—	—	—
Other (loss) income, net	(397)	481	836	920
Total other (expenses) income	(439)	(2,057)	1,028	(1,468)
Income tax expense	23	—	449	472
Net (loss) income	(2,934)	536	(4,733)	(7,131)
Less: net income attributable to NCI	—	—	21	21
Net (loss) income attributable to the company	(2,934)	536	(4,754)	(7,152)
Preferred dividends	—	—	(1,395)	(1,395)
Net (loss) income applicable to common stockholders	$ (2,934)	$ 536	$ (6,149)	$ (8,547)

(A) General and administrative expenses included severance expenses of $0.1 million and $0.1 million for the three and nine months ended September 30, 2023 and $0.4 million and $0.8 million three and nine months ended September 30, 2022, respectively.

(B) Pre-opening costs are expensed as incurred and consist primarily of venue-related marketing expenses, lease expense, employee payroll, travel and related expenses, training costs, food, beverage and other operating expenses incurred prior to opening an entertainment golf venue.

(C) Interest expense included the accretion of membership deposit liabilities in the amount of $1.0 million and $4.1 million for the three and nine months ended September 30, 2023 and $2.4 million and $7.3 million three and nine months ended September 30, 2022, respectively. Interest expense and capitalized interest are combined in interest expense, net on the Consolidated Statements of Operations.

(Dollars in tables in thousands, except share data)

Note 5. PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

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

	September 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value	Gross Carrying Amount	Accumulated Depreciation	Net Carrying Value
Land	$ 6,770	$ —	$ 6,770	$ 6,770	$ —	$ 6,770
Buildings and improvements	216,933	(65,575)	151,358	175,302	(54,999)	120,303
Furniture, fixtures and equipment	74,059	(45,232)	28,827	72,597	(37,796)	34,801
Finance leases - equipment	22,112	(14,589)	7,523	24,911	(13,991)	10,920
Construction in progress	25,492	—	25,492	25,648	—	25,648
Total Property and Equipment	$ 345,366	$ (125,396)	$ 219,970	$ 305,228	$ (106,786)	$ 198,442

Depreciation related to assets placed in service at September 30, 2023 is expected to be approximately $7.4 million quarterly.

Note 6. LEASES

The Company's commitments under lease arrangements are primarily leases for entertainment golf venues and traditional golf properties and related facilities, office leases and leases for golf carts and equipment. 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. In addition to minimum payments, certain leases require payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments. The leases generally require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. Certain leases include scheduled increases or decreases in minimum rental payments at various times during the term of the lease. During the three and nine months ended September 30, 2023, the Company commenced one new operating lease for a Puttery location in Miami, Florida. At commencement, the present value of future payments under the lease totaled $6.5 million based on a discount rate of 9.45%.

Note 7. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company's intangible assets:

	September 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	$ 679	$ (227)	$ 452	$ 700	$ (210)	$ 490
Management contracts	21,887	(13,507)	8,380	28,488	(19,043)	9,445
Internally-developed software	3,682	(1,407)	2,275	2,977	(1,024)	1,953
Membership base	764	(156)	608	4,012	(3,361)	651
Non-amortizable liquor licenses	1,569	—	1,569	1,569	—	1,569
Total Intangibles	$ 28,601	$ (15,297)	$ 13,304	$ 37,746	$ (23,638)	$ 14,108

(Dollars in tables in thousands, except share data)

Note 8. DEBT

The following table presents certain information regarding the Company’s debt obligations at September 30, 2023 and December 31, 2022:

		September 30, 2023							December 31, 2022	
Debt Obligation/Collateral	Month Issued	Outstand-ing Face Amount	Carrying Value (A)	Final Stated Maturity	Weighted Average Coupon	Weighted Average Funding Cost (A)	Weighted Average Life (Years)	Face Amount of Floating	Outstand-ing Face Amount	Carrying Value
Credit Facilities and Finance Leases										
Vineyard II	Dec 1993	$ 200	$ 200	Dec 2043	1.79%	1.79 %	20.6	$ —	$ 200	$ 200
Entertainment Golf Facility	Mar 2023	16,000	14,540	May 2027	3-month SOFR +8.5%	15.75 %	3.6	16,000	—	—
Finance leases (Equipment)	Jan 2017 - Apr 2022	6,957	6,957	Jun 2022 - Aug 2027	3.95% to 8.65%	5.69 %	2.7	—	10,410	10,410
		23,157	21,697			12.61 %	3.5	16,000	10,610	10,610
Less current portion of obligations under finance leases		3,348	3,348						4,761	4,761
Credit facilities and obligations under finance leases - noncurrent		3,609	3,609						5,849	5,849
Corporate										
Junior subordinated notes payable (B)	Mar 2006	51,004	51,153	Apr 2035	LIBOR+2.25%	7.55 %	9.2	51,004	51,004	51,169
Total debt obligations		$ 74,161	$ 72,850			9.13 %	7.8	$ 67,004	$ 61,614	$ 61,779

(A) Including the effect of deferred financing costs.

(B) Collateral for this obligation is the Company's general credit.

On March 2023, Drive Shack Inc. (the “Company” or the "borrower") announced that its entertainment golf business ("New Drive Shack Holdings or "NDSH") had obtained financing in the amount of $26.5 million to fund the continued expansion of the Puttery business, in the form of a five-year senior secured delayed draw term loan facility in an aggregate principal amount of $26.5 million (the “Facility”) to meet our near term liquidity requirements to fund our planned growth, including new venue development and construction, product innovation, and general corporate needs.

On March 3, 2023, the Borrowers borrowed term loans in the aggregate principal amount of $16 million under the Facility. Terms loans in the amount of $10.5 million are available for borrowing under the Facility until September 1, 2023, which was extended to December 1, 2023 subject to customary conditions. The remaining amount of the loan was drawn on November 28, 2023. The obligations of the Borrowers under the Facility are guaranteed, jointly and severally, by, and secured by all of the assets of, the lender and the borrower, subject to customary exceptions. The Loan Parties constitute the Company’s entertainment golf business.

The proceeds of the Facility will be used to finance the development and construction of the Company’s previously announced new Puttery venues and working capital and other general corporate purposes of the Company’s entertainment golf business.

Borrowings under the Revolving Credit Facility will bear interest at a per annum rate equal to 3-month SOFR plus 8.50%, subject to a credit spread adjustment of 100 bps and, if applicable, a 2% SOFR floor. The Facility will amortize on a quarterly basis at a rate of 5% per year beginning in 2024. Loans under the Facility are required to be prepaid from time to time with the proceeds of certain non-ordinary course asset sales and casualty and condemnation events and the proceeds of indebtedness and equity not permitted under the Facility.

(Dollars in tables in thousands, except share data)

Borrowings under the Facility may be prepaid, at the option of NDSH, at any time, without premium, beginning on March 2, 2026. Voluntary prepayments prior to March 2, 2026, will include a make-whole premium in the first year of the Facility, 3% in the second year of the Facility and 1% in the third year of the Facility.

Note 9. REAL ESTATE SECURITIES

As of December 31, 2022, the Company held certain ABS – Non-Agency RMBS securities (the ABS - Non-Agency RMBS is a floating rate security and the collateral securing it is located in various geographic regions in the U.S. The Company does not have significant investments in any one geographic region). At December 31, 2022, this security was classified as available for sale. During the three months ended March 31, 2023, the security was reclassified to trading. As of September 30, 2023, the remaining ABS – Non-Agency RMBS securities have a fair value of approximately $ 0.7 million. See Note 10 regarding the estimation of fair value, which is equal to carrying value for all securities

Note 10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Summary Table

The following table summarizes the carrying values and estimated fair values of the Company's financial instruments at September 30, 2023 and December 31, 2022:

	September 30, 2023			December 31, 2022	
	Carrying Value	Estimated Fair Value	Fair Value Method [(A)]	Carrying Value	Estimated Fair Value
Assets					
Real estate securities, trading	$ 689	$ 689	Pricing models - Level 3	$ —	$ —
Real estate securities, available-for-sale	$ —	$ —	Pricing models - Level 3	$ 1,631	$ 1,631
Cash and cash equivalents	$ 13,121	$ 13,121		$ 12,345	$ 12,345
Restricted cash, current and noncurrent	$ 4,300	$ 4,300		$ 4,589	$ 4,589
Liabilities					
Junior subordinated notes payable	$ 51,153	$ 51,004	Pricing models - Level 3	$ 51,169	$ 12,479
Entertainment Golf facility	$ 14,540	$ 16,000	Pricing models - Level 3	$ —	$ —

(A) Pricing models are used for (i) real estate securities 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 not traded.

Fair Value Measurements

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 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.

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 those of other market participants.

Fair value measurements categorized within Level 3 are sensitive to changes in the assumptions or methodologies 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 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.

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.

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, Entertainment Golf facility	Level 3	Valuation technique is based on discounted cash flows. Significant inputs include: l Amount and timing of expected future cash flows l Interest rates l Market yields and the credit spread of the Company

(Dollars in tables in thousands, except share data)

Note 11. EQUITY AND EARNINGS PER SHARE

Earnings per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Numerator for basic and diluted earnings per share:				
Loss from continuing operations after preferred dividends	$ (4,470)	$ (8,547)	$ (9,767)	$ (39,735)
Loss Applicable to Common Stockholders	$ (4,470)	$ (8,547)	$ (9,767)	$ (39,735)
Denominator:				
Denominator for basic earnings per share - weighted average shares	95,787,087	92,385,019	93,523,211	92,339,823
Effect of dilutive securities				
Options	—	—	—	—
RSUs	—	—	—	—
Denominator for diluted earnings per share - adjusted weighted average shares	95,787,087	92,385,019	93,523,211	92,339,823
Basic earnings per share:				
Gain (loss) from continuing operations per share of common stock after preferred dividends	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.43)
Loss Applicable to Common Stock, per share	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.43)
Diluted earnings per share:				
Gain (loss) from continuing operations per share of common stock after preferred dividends	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.43)
Loss Applicable to Common Stock, per share	$ (0.05)	$ (0.09)	$ (0.10)	$ (0.43)

Basic EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding during each period. Diluted EPS is calculated by dividing net income (loss) applicable to common stockholders by the weighted average number of shares of common stock outstanding plus the additional dilutive effect of dilutive securities during each period. The Company's dilutive securities are its options and RSUs. Based on the treasury stock method, the Company had 161,538 potentially dilutive securities during the three and nine months ended September 30, 2023 and 96,172 and 82,685 potentially dilutive securities during the three and nine months ended September 30, 2022, respectively, which were excluded due to the Company's loss position. Net loss applicable to common stockholders is equal to net loss less preferred dividends.

Stock Options

The following is a summary of the changes in the Company's outstanding options for the nine months ended September 30, 2023:

	Number of Options	Weighted Average Strike Price	Weighted Average Life Remaining (in years)
Balance at December 31, 2022	2,994,430	$ 3.31	
Expired	(1,349,309)	$ 2.77	
Balance at September 30, 2023	1,645,121	$ 3.77	0.741
Exercisable at September 30, 2023	1,461,421	$ 3.75	0.692

(Dollars in tables in thousands, except share data)

As of September 30, 2023, the Company's outstanding options were summarized as follows:

	Number of Options
Held by a former Manager	1,461,421
Granted to the former Manager and subsequently transferred to certain former Manager's employees (A)	183,700
Total	1,645,121

(A) The Company and Fortress (the "former Manager") agreed that options held by certain employees formerly employed by that Manager will not terminate or be forfeited as a result of the Termination and Cooperation Agreement, and the vesting of such options will relate to the relevant holder's employment with the Company and its affiliates following January 1, 2018. In both February 2017 and April 2018, the former Manager issued 1,152,495 options to certain employees formerly employed by the former 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.

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 $21 and $62 during the three and nine months ended September 30, 2023, respectively, and $0.1 million and $0.2 million during the three and nine months ended September 30, 2022, respectively, and is recorded in general and administrative expense on the Consolidated Statements of Operations. During the nine months ended September 30, 2022, the Company reversed $0.6 million in stock compensation expense related to certain previously issued options. The unrecognized stock-based compensation expense related to the unvested options was $21 as of September 30, 2023 and will be expensed over a weighted average of 0.3 years.

Restricted Stock Units (RSUs)

The following is a summary of the changes in the Company's RSUs for the nine months ended September 30, 2023.

	Number of RSUs	Weighted Average Grant Date Fair Value (per unit)	
Balance at December 31, 2022	161,538	$	1.71
Vested	—	$	—
Forfeited (A)	—	$	—
Balance at September 30, 2023	161,538	$	1.71

(A) Unvested RSUs are forfeited by non-employee directors upon their departure from the board of directors and generally forfeited by employees upon their termination.

The Company grants RSUs to the non-employee directors as part of their annual compensation. The RSUs are subject to a one-year vesting period. During the three and nine months ended September 30, 2023, the Company granted no RSUs to non-employee directors and no RSUs granted to non-employee directors vested. The Company also grants RSUs to employees as part of their annual compensation. The RSUs vest in equal annual installments on each of the first three anniversaries of the grant date. During the three and nine months ended September 30, 2023, the Company did not grant RSUs to employees and no RSUs granted to employees vested.

Stock-based compensation expense is recognized on a straight-line basis through the vesting date of the RSUs in general and administrative expense on the Consolidated Statements of Operations. There was no stock-based compensation expense related to RSUs recognized during the three or nine months ended September 30, 2023. Stock-based compensation related to RSUs totaled $0.1 million and $0.2 million during the three and nine months ended September 30, 2022, respectively. During the nine months ended September 30, 2022, the Company reversed $0.3 million in stock compensation expense related to certain previously issued RSUs. The was no unrecognized stock-based compensation expense related to the unvested RSUs as of September 30, 2023.

Preferred Stock

Dividends totaling $1.4 million were paid on January 31, 2023 to holders of record of preferred stock on January 2, 2023, in an amount equal to $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. As of September 30, 2023, $3.7 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

In March 2003, the Company issued 2.5 million shares ($62.5 million face amount) of its 9.75% Series B Cumulative Redeemable Preferred Stock (the "Series B Preferred"). In October 2005, the Company issued 1.6 million shares ($40.0 million face amount) of its 8.05% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred"). In March 2007, the Company issued 2.0 million shares ($50.0 million face amount) of its 8.375% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred"). The Series B Preferred, Series C Preferred and Series D Preferred are non-voting, have a $25 per share liquidation preference, no maturity date and no mandatory redemption. The Company has the option to redeem the Series B Preferred, the Series C Preferred and the Series D Preferred, at their liquidation preference. The terms of the Series C Preferred Series D Preferred each provide that if they cease to be listed on the NYSE or the AMEX, or quoted on the NASDAQ, and the Company is not subject to the reporting requirements of the Exchange Act, the shares of the Series C Preferred Series D Preferred shall accrue cumulative distributions at the special rate of 9.05% and 9.375% per year, respectively. The special rate has been in effect since January 2, 2023, which is the effective date the Company's filing on Form 15, effecting deregistration under the Exchange Act and termination of the reporting requirements of the Exchange Act, and delisting from NYSE.

Common Stock

In the third quarter of 2023, we commenced a rights offering to qualified institutions that held common stock as of July 28, 2023. The rights entitled qualified institutions to purchase, in the aggregate, up to 67.5 million shares of common stock (approximately an additional 73.1% of our total float as of the date of this quarterly report) at a price equal to $0.20 per whole share. The rights offering closed on September 11, 2023. Qualified institutions purchased the full 67.5 million shares of common stock at a price equal to $0.20 per whole share for total gross proceeds of $13.5 million. Of these 67.5 million shares, approximately 10.7 million were acquired by shareholders directly in the rights offering and the remainder were acquired by the Chairman of our Board of Directors and other members of our Board of Directors pursuant to a backstop of the rights offering. No holder became an owner of more than 4.9% of the outstanding shares of our Common Stock immediately after the issuance of the shares of Common Stock underlying the rights at the expiration time of the offering, in order to preserve our historical net operating losses from the effects of a change in ownership under the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The Chairman of our Board of Directors remains the only holder of more than 4.9% of the outstanding shares of our Common Stock.

Noncontrolling Interest

On July 12, 2021, the Company entered into an investment agreement among the Company and Symphony Ventures, which we refer to as Symphony, a company organized under the laws of Ireland, in which the Company agreed to sell to Symphony 10% to 20% of the partnership interests in each of the wholly owned subsidiary limited partnerships, which we refer to as "SLPs", formed by the Company to hold each of the Company's Puttery venues, in exchange for an amount in cash equal to 10% to 20% of the total cost to build the Puttery venue owned by such SLP. Symphony's purchase price in each such SLP will be fully committed on the date the certificate of occupancy for the Puttery venue is received, up to a total commitment of $10 million. We control through a wholly owned subsidiary all general partnership interests and 80% or 90% of the limited partnership interests in the SLP, thus retaining all rights, powers and authority that govern the partnership and, as a result, we consolidate the financial results of this SLP, and report the noncontrolling interest representing the economic interest in the SLP held by Symphony. Currently the Company and Symphony are party to six SLPs, for the Puttery locations in The Colony, Texas; Charlotte, North Carolina; Washington, D.C.; Chicago, Illinois; Pittsburgh, Pennsylvania; and Houston, Texas.

Tax Benefits Preservation Plan

On May 17, 2022, Drive Shack Inc. (the “Company”) entered into a Tax Benefits Preservation Plan (the “Plan”) with American Stock Transfer & Trust Company, LLC, as rights agent (the “Rights Agent”), and the disinterested members of the Board of Directors (the “Board”) of the Company declared a dividend distribution of one right (a “Right”) for each outstanding share of common stock, par value $0.01 per share, of the Company (the “Common Stock”) to stockholders of record at the close of business on May 27, 2022 (the “Record Date”). Each Right is governed by the terms of the Plan and entitles the registered holder to purchase from the Company a unit consisting of one one-thousandth of a share (a “Unit”) of Series E Junior Participating Preferred Stock, par value $0.01 per share (the “Series E Preferred Stock”), at a purchase price of $7.50 per Unit, subject to adjustment (the “Purchase Price”). The Plan is intended to help protect the Company’s ability to use its tax net operating losses and certain other tax assets (“Tax Benefits”) by deterring an “ownership change” as defined under Section 382 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder (the “Code”).

Note 12. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Agreements with the Former Manager

At September 30, 2023, the former Manager, through its affiliates, and principals of the former Manager, owned 9.0 million shares of the Company’s common stock and had options relating to an additional 1.5 million shares of the Company’s common stock (Note 11).

Note 13. COMMITMENTS AND CONTINGENCIES

Litigation - The Company is and may become, from time to time, involved in legal actions in the ordinary course of business, including governmental and administrative investigations, inquiries and proceedings concerning employment, labor, environmental, personal injury and other claims. Although management is unable to predict with certainty the eventual outcome of any legal action, management believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at September 30, 2023, 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.

Environmental Costs — As a commercial real estate owner, the Company is subject to potential environmental costs. At September 30, 2023, management of the Company is not aware of any environmental concerns that would have a material adverse effect on the Company’s consolidated financial position or results of operations.

Surety Bonds — The Company is required to maintain bonds under certain third-party agreements, as requested by certain utility providers, and under the rules and regulations of licensing authorities and other governmental agencies. The Company had bonds outstanding of approximately $0.3 million as of September 30, 2023.

Month-to-Month Leases — The traditional golf segment has four month-to-month property leases which are cancellable by the parties with 30 days written notice. The traditional golf segment also has various month-to-month operating leases for carts and equipment. Lease expense is recorded in short-term lease cost as disclosed in Note 6.

Membership Deposit Liability — In the traditional golf business, until 2021 private country club members generally paid an advance initiation deposit upon their acceptance as a member to the respective country club. Initiation deposits are refundable 30 years after the date of acceptance as a member. As of September 30, 2023, the total nominal value of initiation fee deposits was approximately $246.0 million with annual maturities through 2051.

In 2002 American Golf Corporation ("AGC"), when it was owned by a previous owner, entered into a Restated Membership Deposit Assumption Agreement, with two trusts established by a previous owner of AGC (the “Trusts”) under which the Trusts agreed to unconditionally assume the obligations of AGC to refund certain membership deposit liabilities ("MDLs") in exchange for shares in AGC. The MDLs assumed were refundable 30 years from the date of acceptance of the member with the first liabilities assumed by the Trusts becoming refundable in 2020. The total redemption value of membership deposit liabilities assumed by the Trusts was $181.9 million. No asset was recorded at the time of our acquisition of AGC in recognition of this assumption agreement for the $181.9 million of liabilities assumed by the Trusts for the following reasons. 1) the substantial time period between the assumption of the liabilities and the first liabilities becoming refundable; 2) the inability of AGC to verify and monitor the assets of the Trusts to ensure the ability to perform under the terms of the assumption agreements; 3) the fact that the Trusts are not required to maintain any assets that would support such performance; 4) the Trust settlors were not required contractually to fund the Trusts; and 5) The Company does not have the ability to determine the likelihood that the Trusts will meet their obligations. In the event the Trusts are not able to fulfill their obligations, the Company would be responsible for refunding the outstanding balance of the MDL and therefore, recognizes these MDLs on its balance sheet. Though the Trusts initially assumed $181.9 million of MDLs the balance of related MDLs carried on the books of AGC, as of September 30, 2023, has been reduced to an undiscounted nominal value of $113.9 million through various assignments to third parties and partial membership refunds due to membership transfers. To-date, the Trust has met all of their obligations that have come due for which the Trust assumed responsibility under the Restated Membership Deposit Assumption Agreement. As of September 30, 2023 the Trusts had refunded a total of approximately $1.0 million of MDLs under the terms of the assumption agreements.

Restricted Cash — Approximately $3.4 million of restricted cash at September 30, 2023 is used as credit enhancement for traditional golf’s obligations related to the performance of lease agreements and certain insurance claims.

Commitments - As of September 30, 2023, the Company has additional operating leases that have not yet commenced of $17.3 million. The leases are expected to commence over the next 12 months with initial lease terms of approximately 10 years. These leases are primarily real estate leases for future entertainment golf venues.

Preferred Dividends in Arrears - As of September 30, 2023, $3.7 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

Note 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 ($0.1) million and $0.0 million for the three and nine months ended September 30, 2023, respectively and $0.5 million and $2.1 million for the three and nine months ended September 30, 2022, respectively.
In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which temporary differences become deductible.
The Company recorded a full valuation allowance against its deferred tax assets as of September 30, 2023 as management does not believe that it is more likely than not that the deferred tax assets will be realized.
The Company and its subsidiaries file U.S. federal and state income tax returns in various jurisdictions. As of September 30, 2023, the Company is currently not subject to examination by the IRS for any open tax years and is currently under examination in Idaho for open tax years 2017 and 2019.

At September 30, 2023 and December 31, 2022, the Company reported a total liability for unrecognized tax benefits of $0.7 million and $0.8 million, respectively. The Company does not anticipate any significant increases or decreases to the balance of unrecognized tax benefits during the next 12 months.

(Dollars in tables in thousands, except share data)

Note 15. IMPAIRMENT

The following table summarizes the amounts the Company recorded in the Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Loss on lease terminations	$ 32	$ 2,161	$ 34	$ 2,196
Impairment on entertainment golf properties (held-for-use)	—	—	—	12,854
Other (gains) loss	—	—	—	(18)
Total loss on impairment	$ 32	$ 2,161	$ 34	$ 15,032

During the three and nine months ended June 30, 2023, the Company recorded no impairment charges.

During the nine months ended September 30, 2022 , the Company recorded impairment charges of $11.3 million related to construction in progress assets for its Drive Shack New Orleans venue as the Company determined that it will not restart construction of the venue. The assets consist primarily of a partially constructed, unfinished building and parking lot. During the second quarter of 2022, the Company entered into a termination agreement to terminate the underlying ground lease for the site. The Company recorded a $2.2 million loss on lease terminations related to the Drive Shack New Orleans venue.

Additionally, during the nine months ended September 30, 2022, the Company recorded impairment charges of $1.6 million related to certain assets acquired for our Puttery venues in Charlotte, North Carolina; Miami, Florida; and Washington, DC. The assets consisted of gameplay tracking cameras and supporting hardware and software for our venues. The Company has determined that it will not utilize the devices and they will therefore not be installed. The Company is unable to recover the cost of the devices and the impairment charge represents the full value of the equipment.

Note 16. SUBSEQUENT EVENTS

On January 1, 2024, the Company granted 19,949,178 shares of restricted common stock, par value $0.01 per share (“Restricted Shares”), to Wesley Edens and 8,500,000 Restricted Shares to Michael Compton. The terms of the Restricted Shares contain a performance condition requiring that the Company’s stock price increase at least 66.00% from the date of grant in order to vest, measured on a total return basis (taking into account any dividend payments). The Company will file the grant documents as exhibits to the Company’s quarterly report for the period ending December 31, 2023, pursuant to the requirements of the alternative reporting standards.

In addition, on January 1, 2024 the Company granted 11,449,178 restricted stock units to Michael Compton as compensation for historical services as interim CEO and advisory work prior thereto beginning in Q1 2023, in lieu of cash compensation. The RSUs will vest on February 2, 2024. The Company will file the grant document as exhibits to the Company’s quarterly report for the period ending December 31, 2023, pursuant to the requirements of the alternative reporting standards.

The grants are subject to the terms of the shareholder-approved Drive Shack Inc. 2018 Omnibus Incentive Plan (the “Plan”), which are incorporated by reference in the grant documents. The Restricted Shares are generally subject to performance-based cliff vesting, are not subject to accelerated vesting upon a termination of employment and are not transferable prior the to vesting date. The grants are entitled to voting and dividend rights prior to vesting, subject to clawback in the event the performance condition is not met.

ITEM 4. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following should be read in conjunction with our Consolidated Financial Statements and notes thereto included in Part II, Item 8. "Financial Statements and Supplementary Data," and Part I, Item 1A. "Risk Factors."

GENERAL

The Company is an owner and operator of golf-related leisure and entertainment venues focused on bringing people together through competitive socializing. Our common stock is traded on the OCTMKTS under the symbol "DSHK."
The Company conducts its business through two primary operating segments:

Entertainment Golf Business | *Drive Shack and Puttery*

Our entertainment golf business is primarily focused on competitive socializing within the leisure and social entertainment industry, combining chef-inspired food and beverage offerings, with innovative technology modernizing ways to experience golf as a sport and form of entertainment that appeals to a broad range of audiences and competitive appetites.

The Company launched its first Puttery venue in September 2021 in The Colony, Texas. As of September 30, 2023, the Company operated six leased Puttery venues located in The Colony, Texas; Charlotte, North Carolina; Washington, D.C; Chicago, Illinois; Pittsburgh, Pennsylvania; Houston, Texas; Kansas City, Missouri; and Minneapolis, Minnesota. The Company is committed to two additional Puttery leases for venues in Miami and New York City (Manhattan). Puttery venues are indoor venues typically located in urban and suburban dining and entertainment districts.

We opened our first Drive Shack venue in Orlando, Florida in April 2018, which has largely served as our research and development and testing venue. During the second half of 2019, we opened three Generation 2.0 Drive Shack venues in Raleigh, North Carolina; Richmond, Virginia and West Palm Beach, Florida.

Additionally, the Company is committed to a concession agreement in Manhattan (Randall's Island), New York for a Drive Shack entertainment golf venue.

Traditional Golf Business

Our traditional golf business, American Golf, is one of the largest operators of golf properties in the United States. As of September 30, 2023, we owned, leased or managed fifty-two (52) properties across seven states and have more than 30,000 members.

RESULTS OF OPERATIONS

The following tables summarize our results of operations for the three and nine months ended September 30, 2023 and 2022:

	Three Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	2023	2022	Amount	%
Revenues				
Golf operations (A)	$ 78,936	$ 70,872	$ 8,064	11.4 %
Sales of food and beverages	21,400	17,802	3,598	20.2 %
Total revenues	100,336	88,674	11,662	13.2 %
Operating costs				
Operating expenses (A)	79,414	70,026	9,388	13.4 %
Cost of sales - food and beverages	5,713	4,985	728	14.6 %
General and administrative expense	5,491	8,572	(3,081)	(35.9)%
Depreciation and amortization	8,572	6,819	1,753	25.7 %
Pre-opening costs	1,957	2,145	(188)	(8.8)
Loss on lease terminations and impairment	36	1,318	(1,282)	(97.3)%
Total operating costs	101,183	93,865	7,318	7.8 %
Operating income (loss)	(847)	(5,191)	(4,344)	(83.7)%
Other income (expenses)				
Interest and investment income	298	220	78	35.5 %
Interest expense, net	(2,857)	(2,608)	249	9.5 %
Other income (loss), net	192	920	(728)	79.1 %
Total other income (expenses)	(2,367)	(1,468)	(899)	(61.2)%
Income (loss) before income tax	$ (3,214)	$ (6,659)	$ (3,445)	(51.7)%

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	2023	2022	Amount	%
Revenues				
Golf operations (A)	$ 214,767	$ 193,732	$ 21,035	10.9 %
Sales of food and beverages	61,147	50,612	10,535	20.8 %
Total revenues	275,914	244,344	31,570	12.9 %
Operating costs			0	
Operating expenses (A)	213,506	190,638	22,868	12.0 %
Cost of sales - food and beverages	16,331	14,134	2,197	15.5 %
General and administrative expense	18,049	29,190	(11,141)	(38.2)%
Depreciation and amortization	21,998	19,144	2,854	14.9 %
Pre-opening costs	4,869	4,830	39	0.8 %
Loss on lease terminations and impairment	70	16,350	(16,280)	(99.6)%
Realized and unrealized (gain) on investments	—	—	—	
Total operating costs	274,823	274,286	537	0.2 %
Operating income (loss)	1,091	(29,942)	(31,033)	(103.6)%
Other income (expenses)				
Interest and investment income	71	636	(565)	(88.8)%
Interest expense, net	(8,828)	(8,802)	26	0.3 %
Gain (loss) on extinguishment of debt	—	—	—	
Other income (loss), net	2,095	4,559	(2,464)	54.0 %
Total other income (expenses)	(6,662)	(3,607)	(3,055)	(84.7)%
Loss before income tax	$ (5,571)	$ (33,549)	$ (27,978)	(83.4)%

(A) Includes $16.1 million and $43.6 million for the three and nine months ended September 30, 2023, and $16.4 million and $44.6 million for the three and nine months ended September 30, 2022, respectively, related to management contract reimbursements reported under ASC 606.

Revenues from Golf Operations

Revenues from golf operations comprise principally of: (1) daily green fees, golf cart rentals, and The Player's Club membership dues at American Golf’s public properties, (2) initiation fees, membership dues and guest fees at American Golf’s private properties, (3) management fees and reimbursed operating expenses at American Golf’s managed courses and (4) bay play and game play at Drive Shack and Puttery locations.

Given the discretionary nature of our products, trends in consumer spending will impact our revenue from golf operations on a quarter-by-quarter basis and, particularly in traditional golf as an outdoor activity, and seasonal weather patterns have a significant impact.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Golf operations	$ 78,936	$ 70,872	$ 8,064	11.4 %
Percentage of total revenue	*78.7 %*	*79.9 %*		

During the third Quarter of 2023, Puttery added two new venues in Minneapolis, MN, and Kansas City, MO. Overall, the primary increase in revenue is due to the addition of a total of four Puttery locations between the current period and the prior year comparable period. Puttery saw total guests of 0.2 million in the current period versus 0.1 million in the prior year comparable period with Golf Operations revenue of $6.6 million vs. $4.6 million, an increase of $2.0 million. Drive Shack revenue from Golf Operations was marginally higher with $4.7 million in the current period vs. $4.5 million in the prior year comparable period.

Revenues from Golf Operations for Traditional Golf increased a total of $5.9 million compared to the prior period primarily from the addition of three new courses which contributed $2.7 million in revenue. Traditional Golf same store revenue also increased by $3.2 million compared to the prior period primarily due to an increase in greens fees and cart fees driven by an increase in ADR.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Golf operations	$ 214,767	$ 193,732	$ 21,035	10.9 %
Percentage of total revenue	77.8 %	79.3 %		

Revenues from golf operations increased by $21.0 million Revenue from Golf Operations for Entertainment Golf increased $9.2 million which was primarily from the addition of the four Puttery venues compared to the same period last year. Traditional Golf revenue from Golf Operations increased by $12.4 million compared to the prior period primarily due to an increase in greens fees at the same store level as well as the addition of three new leased courses.

Sales of Food and Beverages

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Sales of food and beverages	$ 21,400	$ 17,802	$ 3,598	20.2 %
Percentage of total revenue	*21.3 %*	*20.1 %*		

Sales of food and beverages increased by $3.6 million, due to a $2.1 million increase in Entertainment Golf driven by the addition of four Puttery locations, and a $1.4 million increase in Traditional Golf driven by the addition of three leased courses.

The increase in Entertainment Golf was primarily due to the addition of four Puttery locations between the current period compared to the prior period. Puttery saw total food and beverage revenues of $9.8 million in the current year versus $7.6 million in the prior year comparative period, an increase of $2.1 million. Puttery same store revenue for Colony, Charlotte, and DC for sales of food and beverages for the current period was marginally higher by $0.2 million compared to the same period last year. Drive Shack revenue from sales of food and beverage was slightly lower by 11% with $4.9 million in the current period vs. $5.5 million in the prior period. This was primarily due to fewer walk in guests than the same period during the previous year.

Traditional Golf Revenue from Sales of food and beverages was $11.6 million for the current period compared to $10.1 million for same period prior year. This was primarily due to an increase at the same store level of $1.1 million driven by an increase in large group events. Revenues increased an additional $0.2 million due to the addition of 3 leased courses compared to the same period in the prior year.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Sales of food and beverages	$ 61,147	$ 50,612	$ 10,535	20.8 %
Percentage of total revenue	22.2 %	20.7 %		

Sales of food and beverages increased by a total of $10.5 million, due to a $6.1 million increase in Entertainment Golf, and a $4.4 million increase in Traditional Golf. The increase in Entertainment Golf was primarily due to the addition of four Puttery venues compared to the same period the prior year.

Traditional Golf increased primarily due to an increase in large group events as well as the addition of three leased courses compared to the same period in the prior year.

Operating Expenses

Operating expenses consist of course and venue level payroll and payroll-related (including hourly and salary wages, bonuses and commissions, health benefits, and payroll taxes), occupancy (including rent, property tax, and common area maintenance), and other course and venue level operating expenses (including utilities, repair and maintenance, and marketing), excluding pre-opening costs, which are recorded separately. Operating expenses also include course level operating costs for our traditional golf managed courses, for which we are reimbursed.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Operating expenses	$ 79,414	$ 70,026	$ 9,388	13.4 %
Percentage of total revenue	*79.1 %*	*79.0 %*		

Operating expenses increased by a total of $9.4 million, primarily due to a $4.3 million increase in Entertainment Golf, and a net $5.1 million increase in Traditional Golf.

Entertainment Golf operating expenses increased due to the addition of four Puttery locations, $14.3 million versus $10.1 million in the prior year comparative period. $2.0 million of this was due to payroll and related expenses, $1.1 million was due to Rent and related expenses, and $1.5 million was due to various items related to the addition of the new locations.

Entertainment Golf same store operating expense decreased by a net amount of $0.1 million.

Traditional Golf operating expense increased by $5.1 million primarily due to the addition of 3 leased courses which accounted for $2.5 million. Same store operating expense increased due to a $1.3 million increase in percentage rent expense related to the increase in revenue. Same store payroll expense also increased by $1.4 million.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Operating expenses	$ 213,506	$ 190,638	$ 22,868	12.0 %
Percentage of total revenue	77.4 %	78.0 %		

Operating expenses increased by $22.9 million, primarily due to a $12.7 million increase in Entertainment Golf due to the addition of four Puttery locations, a net $9.3 million increase in Traditional Golf primarily due to the addition of three leased courses. Increases in traditional golf were due to increases in payroll and payroll related expenses as course and events continue to ramp up this year as compared to the prior period as well as rent, and insurance costs, netted out against $1.5 million in lower utilities costs due to unusually heavy rainfall during the first quarter of the year. Operating expenses at the corporate level were $0.8 million compared to the comparable period in the prior year of $0.1 million. This was primarily due to severance expenses related to the reduction in headcount, additional legal fees, and medical premiums.

Cost of Sales - Food and Beverages

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Cost of sales - food and beverages	$ 5,713	$ 4,985	$ 728	14.6 %
Percentage of total revenue	*5.7 %*	*5.6 %*		

Cost of sales - food and beverages increased by a total of $0.7 million across both business segments. All of this increase was due to the addition of the four Puttery locations compared to the last period.

Cost of sales for food and beverages remained the same for Traditional Golf.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Cost of sales - food and beverages	$ 16,331	$ 14,134	$ 2,197	15.5 %
Percentage of total revenue	5.9 %	5.8 %		

Cost of sales - food and beverages increased by $2.2 million both Entertainment and Traditional Golf mainly driven by the addition of the four Puttery venues in Entertainment Golf. Cost of Sales – food and beverages increase by $0.6 million for Traditional Golf.

General and Administrative Expense (including Acquisition and Transaction Expense)

General and administrative expense consists of costs associated with our corporate support and administrative functions that support development and operations and includes stock-based compensation.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
General and administrative expense	$ 5,491	$ 8,572	$ (3,081)	(35.9)%
Percentage of total revenue	*5.5 %*	*9.7 %*		

General and administrative expense decreased by a net $3.1 million consisting of a $0.8 million decrease in Entertainment golf, a $1.4 million increase at Traditional Golf, and a $3.7 million decrease at the corporate overhead level. This decrease is primarily due to reductions in corporate headcount, professional fees, public company related expenses, and general cost reduction related to corporate expenses which took effect in second quarter of 2023.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
General and administrative expense	$ 18,049	$ 29,190	$ (11,141)	(38.2)%
Percentage of total revenue	6.5 %	11.9 %		

Total General and administrative expense decreased by $11.1 million across all company segments during the nine months ended September 30, 2023 primarily due reductions in payroll and related expenses of $6.5 million related to reductions corporate headcount, reductions professional fees related to legal and accounting services of $3.0 million, public company related expenses of $0.5 million, and $1.0 million of general cost reduction related to corporate expenses which took effect in the second quarter of 2023.

Depreciation and Amortization

Depreciation and amortization consists of depreciation on property and equipment and financing lease assets, as well as amortization of intangible assets.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Depreciation and amortization	$ 8,572	$ 6,819	$ 1,753	25.7 %
Percentage of total revenue	*8.5 %*	*7.7 %*		

Depreciation and amortization higher by a net amount of $1.7 million due to assets put into service at Puttery locations.

Depreciation related to assets placed in service at September 30, 2023 is expected to be approximately $7.4 million quarterly.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Depreciation and amortization	$ 21,998	$ 19,144	$ 2,854	14.9 %
Percentage of total revenue	8.0 %	7.8 %		

Depreciation and amortization increased by $2.8 million primarily due to additions of the three Puttery locations compared to the prior period, which are partially offset by certain assets becoming fully depreciated.

Pre-Opening Costs

Pre-opening costs consist primarily of venue-related lease expenses, employee payroll, marketing expenses, travel and related expenses, training costs, food, beverage and other operating expenses incurred prior to opening an entertainment golf venue.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Pre-opening costs	$ 1,957	$ 2,145	$ (188)	(8.8)%
Percentage of total revenue	*2.0 %*	*2.4 %*		

Pre-opening expenses reduced slightly by $0.1 million compared to the same period last year.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	**September 30, 2023**	**September 30, 2022**	**Amount**	**%**
Pre-opening costs	$ 4,869	$ 4,830	$ 39	0.8 %
Percentage of total revenue	1.8 %	2.0 %		

Pre-opening expenses for the nine months ended September 30, 2023 include expenses for the Puttery location in Minneapolis, Minnesota, and Kansas City, Missouri. This also includes expenses for sites under development during the period which are Miami, Florida, and New York City, New York, which will open in December and January respectively. The average pre-opening costs to open a Puttery venue has been around $1.1 million.

Loss on lease terminations and impairment

Impairment and other losses consists of any gains or losses due to lease terminations, inclusive of lease termination costs and related legal fees as well as the write-off of the net book value of property and equipment, intangible assets, ROU assets and liabilities, and remaining working capital items; impairment charges on long-lived assets, including property and equipment, intangibles, and operating lease assets; and the net book value of assets retired in the normal course of business.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Loss on lease terminations and impairment	$ 36	$ 1,318	$ (1,282)	(97.3)%
Percentage of total revenue	*— %*	*1.5 %*		

Loss on lease terminations and impairment decreased by $1.2million. The decrease is driven by impairment charges related to Dyker Beach and the Puttery location in Philadelphia in 2022.

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Loss on lease terminations and impairment	$ 70	$ 16,350	$ (16,280)	(99.6)%
Percentage of total revenue	— %	6.7 %		

Loss on lease terminations and impairment decreased by $16.2 million primarily due to the impairment of construction in progress assets for the Drive Shack New Orleans venue and certain assets acquired for Puttery venues in Charlotte, North Carolina; Miami, Florida; and Washington, DC and also consists of impairment charges related to Dyker Beach and the Puttery location in Philadelphia in 2022.

Interest and Investment Income

Interest and investment income consists primarily of interest earned on cash balances and a real estate security.

	Three Months Ended		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Interest and investment income	$ 298	$ 220	$ 78	35.5 %
Percentage of total revenue	*0.3 %*	*0.2 %*		

	Nine Months Ended September 30,		Increase (Decrease)	
(dollar amounts in thousands)	September 30, 2023	September 30, 2022	Amount	%
Interest and investment income	$ 71	$ 636	$ (565)	(88.8)%
Percentage of total revenue	— %	0.3 %		

Interest and investment income decreased to adjust the value of the real estate security to MTM.

Interest Expense, Net

Interest expense, net, consists primarily of interest expense on the accretion of membership deposit liabilities, on the Company's junior subordinated notes payable, and on financing lease obligations, offset by amounts capitalized into construction in progress during the construction and development of new venues.

(dollar amounts in thousands)	Three Months Ended September 30, 2023	September 30, 2022	Increase (Decrease) Amount	%
Interest expense, net	$ (2,857)	$ (2,608)	$ 249	9.5 %
Percentage of total revenue	*(2.8)%*	*(2.9)%*		

Interest expense increased by $0.3 million during the period, which included $0.7 million paid for debt facility on Entertainment Golf, $1.0 m paid for interest on the Junior subordinated notes, and $1.1 million net accretion of interest on membership deposit liabilities for the current period.

(dollar amounts in thousands)	Nine Months Ended September 30, September 30, 2023	September 30, 2022	Increase (Decrease) Amount	%
Interest expense, net	$ (8,828)	$ (8,802)	$ 26	0.3 %
Percentage of total revenue	(3.2)%	(3.6)%		

Interest expense, net decreased by less than $0.1 million due to a reduction in net accretion of interest on membership deposit liabilities for the current period comparted to the prior period.

Other Income (Loss), Net

(dollar amounts in thousands)	Three Months Ended September 30, 2023	September 30, 2022	Increase (Decrease) Amount	%
Other income (loss), net	$ 192	$ 920	$ (728)	79.1 %
Percentage of total revenue	*0.2 %*	*1.0 %*		

There was no significant change in Other Income (loss), Net.

(dollar amounts in thousands)	Nine Months Ended September 30, September 30, 2023	September 30, 2022	Increase (Decrease) Amount	%
Other income (loss), net	$ 2,095	$ 4,559	$ (2,464)	54.0 %
Percentage of total revenue	0.8 %	1.9 %		

Other income (loss), net decreased by $2.4 million primarily due to insurance proceeds received in 2022 related to fire damages at two traditional golf venues in 2021.

SEGMENT RESULTS

Entertainment Golf

(in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Increase (Decrease) Amount
Revenues			
Golf operations	$ 11,321	$ 9,067	$ 2,254
Sales of food and beverages	9,794	7,617	2,177
Total revenues	21,115	16,684	4,431
Total operating costs	23,737	19,156	4,581
Operating loss	$ (2,622)	$ (2,472)	$ 150

Total revenues

The increase in total entertainment golf revenues during the three months ended June 30, 2023 was due to the addition of four Puttery venues in Chicago, Illinois, and Pittsburgh, Pennsylvania, Minneapolis, Minnesota, and Kansas City, Missouri compared to the prior period.

Operating loss

Operating Income before pre-opening expenses, depreciation, and impairment for the three months ended September 30, 2023 were $4.0 million offset by pre-opening expenses, depreciation, and impairment of $6.7 million Operating Income before pre-opening expenses, depreciation, and impairment for the prior year comparative period was $3.7 million offset by pre-opening expenses, depreciation, and impairment of $6.2 million.

Operating income for the new venues during the three months ended September 30, 2023– Chicago, Pittsburgh, Minneapolis, and Kansas City contributed $0.5 million.

(in thousands)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Increase (Decrease) Amount
Revenues			
Golf operations	$ 32,105	$ 22,892	$ 9,213
Sales of food and beverages	29,824	23,682	6,142
Total revenues	61,929	46,574	15,355
Total operating costs	66,448	69,760	(3,312)
Operating loss	$ (4,519)	$ (23,186)	$ (18,667)

Total revenues

The increase in total entertainment golf revenues during the nine months ended September 30, 2023 due to the addition of four Puttery venues in Chicago, Illinois, and Pittsburgh, Pennsylvania, Minneapolis, Minnesota, and Kansas City, Missouri compared to the prior period.

Operating loss

Operating Income before pre-opening expenses, depreciation, and impairment for the nine months ended September 30, 2023 were $13.0 million offset by pre-opening expenses, depreciation, and impairment of $18.0 million. Additionally, the current period did not have impairment charges related to construction in progress assets for the Drive Shack New Orleans venue, impairment charges related to Puttery equipment, loss on lease terminations related to the Drive Shack New Orleans venue which occurred in comparative prior period.

Operating income for the new venues during the period – Chicago, Pittsburgh, Minneapolis, and Kansas City contributed $0.9 million.

Traditional Golf

(in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Increase (Decrease) Amount
Revenues			
Golf operations	$ 67,615	$ 61,608	$ 6,007
Sales of food and beverages	11,606	10,185	1,421
Total revenues	79,221	71,793	7,428
Total operating costs	74,601	69,200	5,401
Operating income (loss)	$ 4,620	$ 2,593	$ 2,027

Total revenues

The increase in total traditional golf revenues during the three months ended September 30, 2023 was primarily due to the addition of 3 leased courses, increased green fees driven by an increase in ADR, and increased sales of food and beverages driven by an increase in large group events.

Operating income

The increase in operating income during the three months ended June 30, 2023 was primarily the addition of 3 leased courses, flow through revenue from the increase in greens fees of $2.0 million.

(in thousands)	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Increase (Decrease) Amount
Revenues			
Golf operations	$ 182,662	$ 170,252	$ 12,410
Sales of food and beverages	31,323	$ 26,930	4,393
Total revenues	213,985	197,182	16,803
Total operating costs	199,719	189,762	9,957
Operating income (loss)	$ 14,266	$ 7,420	$ 6,846

Total revenues

The increase in total traditional golf revenues during the nine months ended September 30, 2023 was primarily due to the addition of 3 leased courses contributing revenue of $7.5 million, increase in green fees of $2.9 million driven by an increase in ADR, and increased sales of food and beverages driven by an increase in large group events.

Operating loss

The increase in operating income during the nine months ended September 30, 2023 was primarily the addition of 3 leased courses, flow through revenue from the increase in greens, coupled with a significant savings from water and irrigation costs of $1.5 million.

Corporate

	Three Months Ended		Increase (Decrease)
(in thousands)	September 30, 2023	September 30, 2022	Amount
Revenues			
Golf operations	$ —	$ 197	$ (197)
Total revenues	—	197	(197)
Total operating costs	2,845	5,509	(2,664)
Operating loss	$ (2,845)	$ (5,312)	$ 2,467

Total revenues

The decrease in total corporate revenues during the three months ended September 30, 2023 was primarily due to income generated through the sub-lease of its corporate assets located in New York, NY. For the current period, this was netted out against total operating costs.

Operating loss

The decrease in operating loss is primarily due to the reduction in general and administrative expense from a reduction in payroll and related expenses due to a reduction in corporate headcount, reductions professional fees related to legal and accounting services, reductions in expenses related to public company fees, and general cost reduction related to corporate expenses compared to the prior period.

	Nine Months Ended		Increase (Decrease)
(in thousands)	September 30, 2023	September 30, 2022	Amount
Revenues			
Golf operations	$ —	$ —	$ —
Total revenues	—	—	—
Total operating costs	8,656	14,764	(6,108)
Operating loss	$ (8,656)	$ (14,176)	$ 5,520

Operating loss

The decrease in operating loss is primarily due to the reduction in general and administrative expense from a reduction in payroll and related expenses due to a reduction in corporate headcount, reductions professional fees related to legal and accounting services, reductions in expenses related to public company fees, and general cost reduction related to corporate expenses compared to the prior period.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our primary sources of liquidity are our current balances of cash and cash equivalents that are generated from operations. As primary cash needs are capital expenditures for developing and opening new Puttery venues, the Company secured a loan during the current period.

As of September 30, 2023, we had $13.1 million of available cash.

Our primary cash needs are capital expenditures for developing and opening new Puttery venues and one Drive Shack venue, remodeling and maintaining existing facilities, funding working capital, operating lease and finance lease obligations, servicing our debt obligations, paying dividends on our preferred stock, and for general corporate purposes.

The Company's growth strategy is capital intensive and our ability to execute is dependent upon many factors, including the current and future operating performance of our entertainment golf venues and traditional golf properties, the pace of expansion, real estate markets, site locations, our ability to raise financing and the nature of the arrangements negotiated with landlords. Based upon current levels of operations and anticipated growth, we expect that cash flows from operations, combined with other financing alternatives in place or available will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

On March 8, 2023, New Drive Shack Holdings LLC & Subsidiaries (the "Company") announced that its entertainment golf business had obtained financing to fund the continued expansion of the Puttery business, in the form of a five-year senior secured delayed draw term loan facility in an aggregate principal amount of $26.5 million (the "Facility") to meet our near term liquidity requirements to fund our planned growth, including new venue development and construction, product innovation, and general corporate needs. Our first draw was made in the amount of $16.5 million during the first quarter of 2023, excluding transaction costs. The option to draw the reminder of the amount was extended to December 30, 2023 and subsequently the draw in the amount of $10.5 million (excluding any transaction fees) was made on November 28, 2023.

In the third quarter of 2023, we commenced a rights offering to qualified institutions that held common stock as of July 28, 2023. The rights entitled qualified institutions to purchase, in the aggregate, up to 67.5 million shares of common stock at a price equal to $0.20 per whole share. The rights offering closed on September 11, 2023 and total gross proceeds from the participation was $13.5 million. The proceeds are meant to be used for the completion of remaining Putterys, as well as to remodel and refurbish the existing Drive Shack facilities.

Summary of Cash Flows

The following table and discussion summarize our key cash flows from operating, investing and financing activities:

	Nine Months Ended September 30,	
	2023	2022
Net cash (used in) provided by:		
Operating activities	$ 10,969	$ 11,911
Investing activities	(36,436)	(47,936)
Financing activities	25,954	(10,320)
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	$ 487	$ (46,345)

Operating Activities

Cash flows used in operating activities consist primarily of net losses adjusted for certain items including depreciation and amortization of assets, amortization of prepaid golf member dues, impairment losses, other gains and losses from the sale of assets, stock-based compensation expense, and the effect of changes in operating assets and liabilities.

Net cash provided by operating activities was $11.0 million for the nine months ended September 30, 2023, and $12.0 million for the nine months ended September 30, 2022, however, cash flows from Operating Activities for the nine months 2022 included an increase in Accounts Payable and Accrued Expenses of $20.0 million as the company was entering a period of tighter liquidity.

Overall, Cash Flows from Operating Activities for the 9 months ended September 30, 2023 increased compared to the same period in 2022 mainly due to the addition of Puttery venues, the addition of 3 leased courses, and increases in revenue from our Traditional Golf operations. Operating cash flows also increased due to reduction in expenses from cost savings initiatives.

Investing Activities

Cash flows from investing activities primarily relate to insurance proceeds for property loss related to Traditional Golf, and cash flows used in investing activities primarily consist of capital expenditures for the construction and development of entertainment golf venues and renovations of existing facilities, as well as renovations and maintenance for the Traditional Golf facilities.

Net cash used in investing activities was $36.4 million during the nine months ended September 30, 2023 and $48.0 million during the nine months ended September 30, 2023.

Capital Expenditures. Our capital expenditures for the nine months ended September 30, 2023 were $27.0 million for development of Puttery venues for Entertainment Golf. Capital expenditures for Traditional Golf was $9.4 million used for ongoing maintenance at the golf courses and rebuilding properties that were damaged in 2022.

We expect our capital expenditures over the next 12 months to range between $20.0 million and $25.0 million for Entertainment Golf, which includes developing the remaining and Puttery venues, and renovating and maintaining the existing Drive Shack facilities, which will be funded from the monies raised through the Rights Offering - $13.5 million, the available loan funds $10.5 million, and cash flows generated from operations.

Capital expenditures from Traditional Golf are expected to be between $8.0 million and $10.0 million over the next 12 months for the maintenance of our golf courses which would be funded by cash flows generated from operations.

Financing Activities

Cash flows used in or provided by financing activities consist primarily of cash from the borrowing or repayment of debt obligations, deposits received on golf memberships, payment of preferred dividends, and the issuance of common stock.

Financing activities provided $26 million during the nine months ended September 30, 2023. The increase was primarily due to net proceeds from our loan facility for Entertainment Golf that was completed on March 3, 2023 of $16.0 million, and the rights offering completed on September 11, 2023 of $13.5 million.

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, 2022.

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2023, we had all of the material contractual obligations referred to in our annual report or the year ended December 31, 2022. During the three and nine months ended September 30, 2023, the Company commenced one new operating lease for a Puttery location in Miami, Florida. At commencement, the present value of future payments under the lease totaled $6.5 million based on a discount rate of 9.45%.

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, or GAAP. The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Our estimates are based on information available to management at the time of preparation of the Consolidated Financial Statements, including the result of historical analysis, our understanding and experience of the Company's operations, our knowledge of the industry and market-participant data available to us.
Actual results have historically been in line with management's estimates and judgments used in applying each of the accounting policies described below, and management periodically re-evaluates accounting estimates and assumptions. Actual results could differ from these estimates and materially impact our Consolidated Financial Statements. However, the Company does not expect our assessments and assumptions below to materially change in the future.

Recent Accounting Pronouncements

There were no recent accounting pronouncements that had an impact during the current period.

ITEM 5. Legal Proceedings

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 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION

On July 10, 2023, Mr. Virgis Colbert and Mr. Stuart McFarland each retired from the Board of Directors of the Company, on a voluntary basis in order to enable the Company to reduce its public company costs following the successful delisting from NYSE and in accordance with the Company's age guidelines for directors.

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, 2022.

ITEM 9. ISSUER'S CERTIFICATIONS

I, Michael Compton, certify that:

1. I have reviewed this quarterly disclosure statement of Drive Shack Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

DRIVE SHACK INC.

/s/ Michael Compton
Interim Chief Executive
Officer

February 2, 2024

I, Prem Metharam, certify that:

1. I have reviewed this quarterly disclosure statement of Drive Shack Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

DRIVE SHACK INC.

/s/ Prem Metharam

Interim Chief Financial
Officer

February 2, 2024

Drive Shack Inc.

10670 N. Central Expressway
Suite 700
75231

OTCQX Q3 2023 Supplement (the 'Quarterly Supplement')

This Quarterly Supplement incorporates by reference in its entirety all information set forth the Quarterly Report for the Period Ending September 30, 2023 (the 'Quarterly Report') to which it is attached. The Quarterly Supplement should only be read in conjunction with the Quarterly Report.

Telephone: (646) 585-5591
Corporate Website: https://ir.driveshack.com/

Item 1 The exact name of the issuer and its predecessor (if any).

Please refer to the cover page of the Quarterly Report.

Item 2 Shares outstanding.

2,875,000 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, $0.01 par value per share ("Series B Preferred Stock")

1,800,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, $0.01 par value per share ("Series C Preferred Stock")

2,300,000 8.375% Series D Cumulative Redeemable Preferred Stock, $0.01 par value per share ("Series D Preferred Stock")

Item 3 Interim financial statements (including notes)

Please refer to the Quarterly Report, under the heading "Item 2—Financial Statements"

Item 4 Management's discussion and analysis or plan of operation.

Please refer to the Quarterly Report, under the heading Item 4—Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 5 Legal proceedings.

Please refer to the Quarterly Report, under the heading Item 5—Legal Proceedings.

Item 6 Defaults upon senior securities.

Please refer to the Quarterly Report, under the heading Item 6—Defaults upon senior securities.

Item 7 Other Information.

The following information updates Item 17 of the Company's 2022 Annual Report OTCQX Supplement.

On January 1, 2024, the Company granted 19,949,178 shares of restricted common stock, par value $0.01 per share ("Restricted Shares"), to Wesley Edens and 8,500,000 Restricted Shares to Michael Compton. The terms of the Restricted Shares contain a performance condition requiring that the Company's stock price increase at least 66.00% from the date of grant in order to vest, measured on a total return basis (taking into account any dividend payments). The Company will file the grant documents as exhibits to the Company's quarterly report for the period ending December 31, 2023, pursuant to the requirements of the alternative reporting standards. In addition, on January 1, 2024 the Company granted 11,449,178 restricted stock units to Michael Compton as compensation for historical services as interim CEO and advisory work prior thereto beginning in Q1 2023, in lieu of cash compensation. The RSUs will vest on February 2, 2024. The

Company will file the grant document as exhibits to the Company's quarterly report for the period ending December 31, 2023, pursuant to the requirements of the alternative reporting standards. The grants are subject to the terms of the shareholder-approved Drive Shack Inc. 2018 Omnibus Incentive Plan (the "Plan"), which are incorporated by reference in the grant documents. The Restricted Shares are generally subject to performance-based cliff vesting, are not subject to accelerated vesting upon a termination of employment and are not transferable prior the to vesting date. The grants are entitled to voting and dividend rights prior to vesting, subject to clawback in the event the performance condition is not met.

Item 8 Exhibits.

No updates were made in this quarter to the list of exhibits previously set forth in our Annual Report for the Year Ended December 31, 2022.

Item 9 Issuer's Certifications.

I, Michael Compton, certify that:

1. I have reviewed this quarterly disclosure statement of Drive Shack Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

DRIVE SHACK INC.

/s/ Michael Compton

Interim Chief Executive Officer

February 2, 2024

I, Prem Metharam, certify that:

1. I have reviewed this quarterly disclosure statement of Drive Shack Inc.;

2. Based on my knowledge, this disclosure statement 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 disclosure statement; and

3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

DRIVE SHACK INC.

/s/ Prem Metharam

Interim Chief Financial Officer

February 2, 2024