

Drive Shack Inc.

A Maryland Corporation

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SIC Code:

Quarterly Report

For the period ending June 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.

DRIVE SHACK INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share data)

	(unaudited)	
	June 30, 2023	December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	\$ 15,873	\$ 12,345
Restricted cash	4,122	4,373
Accounts receivable, net	9,359	8,305
Real estate assets, trading	1,033	—
Real estate securities, available-for-sale	—	1,631
Other current assets	27,470	24,872
Total current assets	57,857	51,526
Restricted cash, noncurrent	216	216
Property and equipment, net of accumulated depreciation	210,241	198,442
Operating lease right-of-use assets	179,314	189,993
Intangibles, net of accumulated amortization	13,136	14,108
Other assets	3,989	3,696
Total assets	\$ 464,753	\$ 457,981
Liabilities and Equity		
Current liabilities		
Obligations under finance leases	\$ 3,927	\$ 4,761
Membership deposit liabilities	26,517	22,479
Accounts payable and accrued expenses	33,912	41,477
Deferred revenue	23,374	29,490
Other current liabilities	36,364	28,904
Total current liabilities	124,094	127,111
Credit facilities and obligations under finance leases - noncurrent	4,319	5,849
Operating lease liabilities - noncurrent	175,631	177,867
Long-term debt	14,597	—
Junior subordinated notes payable	51,156	51,169
Membership deposit liabilities, noncurrent	108,317	109,762
Deferred revenue, noncurrent	12,907	11,303
Other liabilities	1,976	1,877
Total liabilities	\$ 492,997	\$ 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 June 30, 2023 and December 31, 2022	\$	61,583	\$ 61,583
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 92,385,019 shares issued and outstanding at June 30, 2023 and December 31, 2022		924	924
Additional paid-in capital		3,234,226	3,232,104
Accumulated deficit		(3,331,654)	(3,326,357)
Accumulated other comprehensive loss		—	(281)
Total deficit of the company	\$	(34,921)	\$ (32,027)
Noncontrolling interest		6,677	5,070
Total deficit	\$	(28,244)	\$ (26,957)
Total liabilities and deficit	\$	464,753	\$ 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Revenues				
Golf operations	\$ 75,642	\$ 67,577	\$ 135,831	\$ 122,861
Sales of food and beverages	22,477	19,112	39,747	32,810
Total revenues	98,119	86,689	175,578	155,671
Operating costs				
Operating expenses	71,791	65,473	134,092	120,613
Cost of sales - food and beverages	5,860	5,788	10,618	9,149
General and administrative expense	5,159	11,558	12,558	20,622
Depreciation and amortization	6,751	6,132	13,426	12,325
Pre-opening costs	1,234	1,938	2,912	2,685
(Gain) loss on lease terminations and impairment	32	2,161	34	15,032
Total operating costs	90,827	93,050	173,640	180,426
Operating income (loss)	7,292	(6,361)	1,938	(24,755)
Other income (expenses)				
Interest and investment (expense) income	(441)	216	(227)	416
Interest expense, net	(3,879)	(3,547)	(5,971)	(6,194)
Other (loss) income, net	(463)	993	1,903	3,640
Total other income (expenses)	(4,783)	(2,338)	(4,295)	(2,138)
Income (loss) before income tax	2,509	(8,699)	(2,357)	(26,893)
Income tax expense	55	868	104	1,589
Consolidated net income (loss)	2,454	(9,567)	(2,461)	(28,482)
Less: net income (loss) attributable to noncontrolling interest	28	(134)	46	(81)
Net income (loss) attributable to the Company	2,426	(9,433)	(2,507)	(28,401)
Preferred dividends	(1,395)	(1,395)	(2,790)	(2,790)
Income (loss) applicable to common stockholders	\$ 1,031	\$ (10,828)	\$ (5,297)	\$ (31,191)
Income (loss) applicable to common stock, per share				
Basic	\$ 0.01	\$ (0.12)	\$ (0.06)	\$ (0.34)
Diluted	\$ 0.01	\$ (0.12)	\$ (0.06)	\$ (0.34)
Weighted average number of shares of common stock outstanding				
Basic	92,385,019	92,378,928	92,385,019	92,316,851
Diluted	92,546,557	92,378,928	92,385,019	92,316,851

See notes to unaudited Consolidated Financial Statements.

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

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net income (loss)	\$ 2,454	\$ (9,567)	\$ (2,461)	\$ (28,482)
Other comprehensive income (loss):				
Net unrealized gain (loss) on available-for-sale securities	—	(993)	281	(993)
Other comprehensive income (loss)	—	(993)	281	(993)
Total comprehensive income (loss)	\$ 2,454	\$ (10,560)	\$ (2,180)	\$ (29,475)
Comprehensive income (loss) attributable to noncontrolling interest	28	(134)	46	(81)
Comprehensive income (loss) attributable to the Company	\$ 2,426	\$ (10,426)	\$ (2,226)	\$ (29,394)

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (unaudited)
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2023 AND 2022
(Dollars in thousands, except share data)

	Drive Shack Inc. Stockholders								
	Preferred Stock		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comp. Income (loss)	Noncontrolling Interest	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
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									<u>\$ (4,634)</u>
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									<u>\$ 2,454</u>
Equity (deficit) - June 30, 2023	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>92,385,019</u>	<u>\$ 924</u>	<u>\$ 3,234,226</u>	<u>\$ (3,331,654)</u>	<u>\$ —</u>	<u>\$ 6,677</u>	<u>\$ (28,244)</u>

Drive Shack Inc. Stockholders									
	Preferred Stock		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comp. Income (loss)	Noncontrolling Interest	Total Equity (Deficit)
	Shares	Amount	Shares	Amount					
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	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>92,385,019</u>	<u>\$ 924</u>	<u>\$ 3,232,324</u>	<u>\$ (3,300,065)</u>	<u>\$ 170</u>	<u>\$ 2,065</u>	<u>\$ (2,999)</u>

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(Dollars in thousands, except share data)

	Six Months Ended June 30,	
	2023	2022
Cash Flows From Operating Activities		
Net loss	\$ (2,461)	\$ (28,482)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	13,426	12,325
Amortization of discount and premium	87	(171)
Other amortization	3,092	2,044
Amortization of revenue on golf membership deposit liabilities	—	(508)
Amortization of prepaid golf membership dues	—	(3,935)
Non-cash operating lease expense	8,496	736
Stock-based compensation	41	(696)
Loss on lease terminations and impairment	34	15,032
Gain from insurance proceeds for property loss	(1,275)	(2,781)
Equity in earnings, net of impairment from equity method investments	—	—
Other (gains) losses, net	(1,438)	120
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	(3,066)	(1,220)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	(2,669)	3,798
Net cash provided by (used in) operating activities	<u>14,267</u>	<u>(3,738)</u>
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	8	—
Insurance proceeds for property loss	1,275	2,781
Acquisition and additions of property and equipment and intangibles	(26,383)	(10,964)
Net cash used in investing activities	<u>(25,100)</u>	<u>(8,183)</u>
Cash Flows From Financing Activities		
Borrowings under debt obligations	16,174	—
Repayments of debt obligations	(2,633)	(1,499)
Payment of deferred financing costs	(1,503)	—
Golf membership deposits received	—	45
Capital contributions received	3,888	—
Capital distribution paid	—	(40)
Preferred stock dividends paid	(1,395)	(1,395)
Other financing activities	(421)	(761)
Net cash provided by (used in) financing activities	<u>14,110</u>	<u>(3,650)</u>
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	<u>3,277</u>	<u>(15,571)</u>
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period	<u>16,934</u>	<u>62,564</u>
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period	<u>\$ 20,211</u>	<u>\$ 46,993</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends accumulated but not paid	\$ 2,325	\$ 930
Additions to finance lease assets and liabilities	\$ 95	\$ 1,297
Additions to property and equipment and accounts payable	\$ (2,225)	\$ (235)
Additions for right of use assets in exchange for new operating lease liabilities	\$ (1,395)	\$ 21,467
Cash paid during the period for interest expense	\$ 1,757	\$ 540
Cash paid during the period for income taxes	\$ 1,605	\$ —

See notes to unaudited Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share and per share data)

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 June 30, 2023, the Company's entertainment golf segment was comprised of ten owned or leased entertainment golf venues across seven 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; and Houston, Texas.

The Company's traditional golf segment is one of the largest operators of traditional golf properties in the United States. As of June 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.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(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:

	June 30, 2023	December 31, 2022
Cash and cash equivalents	\$ 15,873	12,345
Restricted cash	4,122	4,373
Restricted cash, noncurrent	216	216
Total Cash and cash equivalents, Restricted cash and Restricted cash, noncurrent	<u>\$ 20,211</u>	<u>\$ 16,934</u>

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 June 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:

	June 30, 2023	December 31, 2022
Managed property receivables	\$ 12,397	\$ 10,559
Prepaid expenses	1,461	2,421
Deposits	1,762	1,307
Inventory	3,418	2,828
Miscellaneous current assets, net	8,432	7,757
Other current assets	<u>\$ 27,470</u>	<u>\$ 24,872</u>

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

	June 30, 2023	December 31, 2022
Prepaid expenses	\$ 130	\$ 182
Deposits	3,567	3,014
Miscellaneous assets, net	292	500
Other assets	<u>\$ 3,989</u>	<u>\$ 3,696</u>

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

	June 30, 2023	December 31, 2022
Operating lease liabilities	\$ 19,033	\$ 18,946
Accrued rent	4,953	3,803
Dividends payable	2,325	930
Miscellaneous current liabilities	10,053	5,225
Other current liabilities	<u>\$ 36,364</u>	<u>\$ 28,904</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(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 June 30, 2023, has been reduced to an undiscounted nominal value of \$114.3 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 June 30, 2023 the Trusts had refunded a total of approximately \$0.9 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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Collateral management fee income, net	\$ —	\$ 33	\$ —	\$ 70
Insurance proceeds	—	622	1,275	3,424
Gain (loss) on sale of long-lived assets and intangibles	8	—	8	(38)
Loss on Lease Modification/Termination	—	(95)	—	(53)
Other (loss) gain	(471)	433	620	237
Other (loss) gain, net	<u>\$ (463)</u>	<u>\$ 993</u>	<u>\$ 1,903</u>	<u>\$ 3,640</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(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 June 30, 2023						Six Months Ended June 30, 2023					
	Ent. golf venues	Public golf proper- ties	Private golf proper- ties	Managed golf proper- ties (A)	Corporate	Total	Ent. golf venues	Public golf proper- ties	Private golf proper- ties	Managed golf proper- ties (A)	Corporate	Total
Golf operations	\$10,516	\$ 33,957	\$ 13,925	\$ 17,244	\$ —	\$75,642	\$20,780	\$ 55,665	\$ 28,372	\$ 31,014	\$ —	\$135,831
Sales of food and beverages	9,707	10,158	2,612	—	—	22,477	20,030	15,186	4,531	—	—	39,747
Total revenues	\$20,223	\$ 44,115	\$ 16,537	\$ 17,244	\$ —	\$98,119	\$40,810	\$ 70,851	\$ 32,903	\$ 31,014	\$ —	\$175,578

	Three Months Ended June 30, 2022						Six Months Ended June 30, 2022					
	Ent. golf venues	Public golf proper- ties	Private golf proper- ties	Managed golf proper- ties (A)	Corporate	Total	Ent. golf venues	Public golf proper- ties	Private golf proper- ties	Managed golf proper- ties (A)	Corporate	Total
Golf operations	\$ 7,397	\$ 30,741	\$ 11,716	\$ 17,515	\$ 208	\$67,577	\$13,827	\$ 50,242	\$ 26,282	\$ 32,117	\$ 393	\$122,861
Sales of food and beverages	8,316	8,612	2,184	—	—	19,112	16,066	12,975	3,769	—	—	32,810
Total revenues	\$15,713	\$ 39,353	\$ 13,900	\$ 17,515	\$ 208	\$86,689	\$29,893	\$ 63,217	\$ 30,051	\$ 32,117	\$ 393	\$155,671

(A) Includes \$15.1 million and \$27.5 million for the three and six months ended June 30, 2023, and \$15.2 million and \$28.2 million for the three and six months ended June 30, 2022, respectively, related to management contract reimbursements reported under ASC 606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

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 June 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 six Puttery venues located in The Colony, Texas; Charlotte, North Carolina; Washington, D.C.; Chicago, Illinois; Pittsburgh, Pennsylvania; and Houston, Texas.

The Company's traditional golf segment is one of the largest operators of golf courses and country clubs in the United States. As of June 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(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:

Six Months Ended June 30, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	\$ 20,784	\$ 115,047	\$ —	\$ 135,831
Sales of food and beverages	20,030	19,717	—	39,747
Total revenues	40,814	134,764	—	175,578
Operating costs				
Operating expenses	25,361	107,953	778	134,092
Cost of sales - food and beverages	5,305	5,313	—	10,618
General and administrative expense ^(A)	986	6,816	4,756	12,558
Depreciation and amortization	8,182	5,002	242	13,426
Pre-opening costs ^(C)	2,877	—	35	2,912
(Gain) loss on lease terminations and impairment	—	34	—	34
Total operating costs	42,711	125,118	5,811	173,640
Operating (loss) income	(1,897)	9,646	(5,811)	1,938
Other income (expenses)				
Interest and investment income (loss)	—	24	(251)	(227)
Interest expense ^(D)	(78)	(3,334)	(2,559)	(5,971)
Other income (loss), net	—	1,139	764	1,903
Total other (expense) income	(78)	(2,171)	(2,046)	(4,295)
Income tax expense	—	—	104	104
Net (loss) income	(1,975)	7,475	(7,961)	(2,461)
Less: net income (loss) attributable to NCI	46	—	—	46
Net (loss) income attributable to the company	(2,021)	7,475	(7,961)	(2,507)
Preferred dividends	—	—	(2,790)	(2,790)
Net (loss) income applicable to common stockholders	\$ (2,021)	\$ 7,475	\$ (10,751)	\$ (5,297)

June 30, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
Total assets	\$ 223,589	\$ 245,270	\$ (2,591)	\$ 466,268
Total liabilities	\$ 87,078	\$ 319,581	\$ 86,337	\$ 492,996
Preferred stock	\$ —	\$ —	\$ 61,583	\$ 61,583
Noncontrolling interest	\$ 6,677	\$ —	\$ —	\$ 6,677
Equity (deficit) attributable to common stockholders	\$ 129,834	\$ (74,311)	\$ (150,511)	\$ (94,988)

Additions to property and equipment (including finance leases) during the six months ended June 30, 2023	\$ 19,525	\$ 4,607	\$ 121	\$ 24,253
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

Three Months Ended June 30, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	\$ 10,516	\$ 65,126	\$ —	\$ 75,642
Sales of food and beverages	9,707	12,770	—	22,477
Total revenues	20,223	77,896	—	98,119
Operating costs				
Operating expenses	12,403	59,362	26	71,791
Cost of sales - food and beverages	2,583	3,277	—	5,860
General and administrative expense ^(A)	654	3,000	1,505	5,159
Depreciation and amortization	4,132	2,498	121	6,751
Pre-opening costs ^(C)	1,225	—	9	1,234
Loss on lease terminations and impairment	—	32	—	32
Total operating costs	20,997	68,169	1,661	90,827
Operating (loss) income	(774)	9,727	(1,661)	7,292
Other income (expenses)				
Interest and investment income (loss)	—	9	(450)	(441)
Interest expense ^(D)	(45)	(2,233)	(1,601)	(3,879)
Other income (loss), net	—	(1,449)	986	(463)
Total other (expenses) income	(45)	(3,673)	(1,065)	(4,783)
Income tax expense	—	—	55	55
Net (loss) income	(819)	6,054	(2,781)	2,454
Less: net income (loss) attributable to NCI	28	—	—	28
Net (loss) gain attributable to the company	(847)	6,054	(2,781)	2,426
Preferred dividends	—	—	(1,395)	(1,395)
Net (loss) income applicable to common stockholders	\$ (847)	\$ 6,054	\$ (4,176)	\$ 1,031

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

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

Six Months Ended June 30, 2022	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	\$ 13,827	\$ 108,641	\$ 393	\$ 122,861
Sales of food and beverages	16,066	16,744	—	32,810
Total revenues	29,893	125,385	393	155,671
Operating costs				
Operating expenses	16,785	103,783	45	120,613
Cost of sales - food and beverages	4,444	4,705	—	9,149
General and administrative expense ^(A)	4,800	6,817	9,005	20,622
General and administrative expense - acquisition and transaction expenses ^(B)	—	—	—	—
Depreciation and amortization	6,842	5,273	210	12,325
Pre-opening costs ^(C)	2,685	—	—	2,685
(Gain) Loss on lease terminations and impairment	15,048	(16)	—	15,032
Total operating costs	50,604	120,562	9,260	180,426
Operating loss	(20,711)	4,823	(8,867)	(24,755)
Other income (expenses)				
Interest and investment income	2	41	373	416
Interest expense ^(D)	(110)	(5,327)	(757)	(6,194)
Capitalized interest ^(D)	—	—	—	—
Other income (loss), net	(16)	3,590	66	3,640
Total other income (expenses)	(124)	(1,696)	(318)	(2,138)
Income tax expense	40	2	1,547	1,589
Net income (loss)	(20,875)	3,125	(10,732)	(28,482)
Less: net loss attributable to NCI	—	—	(81)	(81)
Net loss attributable to the company	(20,875)	3,125	(10,651)	(28,401)
Preferred dividends	—	—	(2,790)	(2,790)
Loss applicable to common stockholders	\$ (20,875)	\$ 3,125	\$ (13,441)	\$ (31,191)
June 30, 2022				
Total assets	\$ 196,605	\$ 248,672	\$ 12,761	\$ 458,038
Total liabilities	\$ 69,734	\$ 325,114	\$ 66,189	\$ 461,037
Preferred stock	\$ —	\$ —	\$ 61,583	\$ 61,583
Noncontrolling interest	\$ 2,579	\$ —	\$ (514)	\$ 2,065
Equity	\$ 124,292	\$ (76,442)	\$ (114,497)	\$ (66,647)
Additions to property and equipment (including finance leases) during the nine months ended June 30, 2022				
	\$ 6,276	\$ 2,428	\$ (86)	\$ 8,618

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

Three Months Ended June 30, 2022	Entertainment Golf	Traditional Golf	Corporate	Total
Revenues				
Golf operations	\$ 7,397	\$ 59,972	\$ 208	\$ 67,577
Sales of food and beverages	8,316	10,796	—	19,112
Total revenues	15,713	70,768	208	86,689
Operating costs				
Operating expenses	8,525	56,968	(20)	65,473
Cost of sales - food and beverages	2,701	3,087	—	5,788
General and administrative expense ^(A)	1,074	3,923	6,561	11,558
General and administrative expense - acquisition and transaction expenses ^(B)	—	—	—	—
Depreciation and amortization	3,401	2,629	102	6,132
Pre-opening costs ^(C)	1,938	—	—	1,938
(Gain) Loss on lease terminations and impairment	2,159	2	—	2,161
Total operating costs	19,798	66,609	6,643	93,050
Operating income (loss)	(4,085)	4,159	(6,435)	(6,361)
Other income (expenses)				
Interest and investment income	2	15	199	216
Interest expense ^(D)	(52)	(3,078)	(417)	(3,547)
Capitalized interest ^(D)	—	—	—	—
Other income (loss), net	—	962	31	993
Total other income (expenses)	(50)	(2,101)	(187)	(2,338)
Income tax expense	8	2	858	868
Net income (loss)	(4,143)	2,056	(7,480)	(9,567)
Less: net income attributable to NCI	—	—	(134)	(134)
Net loss attributable to the company	(4,143)	2,056	(7,346)	(9,433)
Preferred dividends	—	—	(1,395)	(1,395)
Net income (loss) applicable to common stockholders	\$ (4,143)	\$ 2,056	\$ (8,741)	\$ (10,828)

(A) General and administrative expenses included severance expenses of \$113.0 million and \$113.0 million for the three and six months ended June 30, 2023 and \$200.0 million and \$400.0 million three and six months ended June 30, 2022, respectively.

(B) Acquisition and transaction expenses include costs related to completed and potential acquisitions and transactions and strategic initiatives which may include advisory, legal, accounting and other professional or consulting fees.

(C) 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.

(D) Interest expense included the accretion of membership deposit liabilities in the amount of \$0.0 million and \$0.0 million for the three and six months ended June 30, 2023 and \$0.0 million and \$0.0 million three and six months ended June 30, 2022, respectively. Interest expense and capitalized interest are combined in interest expense, net on the Consolidated Statements of Operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(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:

	June 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	190,467	(60,463)	130,004	180,802	(54,999)	125,803
Furniture, fixtures and equipment	70,897	(42,856)	28,041	67,097	(37,796)	29,301
Finance leases - equipment	23,797	(14,992)	8,805	24,911	(13,991)	10,920
Construction in progress	36,621	—	36,621	25,648	—	25,648
Total Property and Equipment	<u>\$ 328,552</u>	<u>\$ (118,311)</u>	<u>\$ 210,241</u>	<u>\$ 305,228</u>	<u>\$ (106,786)</u>	<u>\$ 198,442</u>

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 six months ended June 30, 2023, the Company commenced no new leases.

Note 7. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company's intangible assets:

	June 30, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (222)	\$ 478	\$ 700	\$ (210)	\$ 490
Management contracts	21,887	(13,152)	8,735	28,488	(19,043)	9,445
Internally-developed software	3,012	(1,280)	1,732	2,977	(1,024)	1,953
Membership base	764	(142)	622	4,012	(3,361)	651
Non-amortizable liquor licenses	1,569	—	1,569	1,569	—	1,569
Total Intangibles	<u>\$ 27,932</u>	<u>\$ (14,796)</u>	<u>\$ 13,136</u>	<u>\$ 37,746</u>	<u>\$ (23,638)</u>	<u>\$ 14,108</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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Note 8. DEBT

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

		June 30, 2023							December 31, 2022	
<u>Debt Obligation/Collateral</u>	<u>Month Issued</u>	<u>Outstand- ing Face Amount ^(A)</u>	<u>Carrying Value</u>	<u>Final Stated Maturity</u>	<u>Weighte d Average Coupon</u>	<u>Weighte d Average Funding</u>	<u>Weighte d Average Life</u>	<u>Face Amount of Floating</u>	<u>Outstand- ing Face Amount</u>	<u>Carrying Value</u>
<u>Credit Facilities and Finance Leases</u>										
Vineyard II	Dec 1993	\$ 200	\$ 200	Dec 2043	1.79%	1.79 %	20.9	\$ —	\$ 200	\$ 200
Entertainment Golf Facility	Mar 2023	16,000	14,597	May 2027	3-month SOFR + 8.5%	15.75 %	3.9	16,000	—	—
Finance leases (Equipment)	Jan 2017 - Apr 2022	8,246	8,246	Jun 2022 - Aug 2027	3.95% to 8.65%	5.69 %	3	—	10,410	10,410
		24,446	23,043			12.24 %	3.7	16,000	10,610	10,610
Less current portion of obligations under finance leases		3,927	3,927						4,761	4,761
Credit facilities and obligations under finance leases - noncurrent		4,319	4,319						5,849	5,849
<u>Corporate</u>										
Junior subordinated notes payable ^(B)	Mar 2006	51,004	51,156	Apr 2035	LIBOR+2.	7.55 %	9.5	51,004	51,004	51,169
Total debt obligations		\$ 75,450	\$ 74,199			9.07 %	7.6	\$ 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, subject to customary conditions. 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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of certain non-ordinary course asset sales and casualty and condemnation events and the proceeds of indebtedness and equity not permitted under the Facility.

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 June 30, 2023, the remaining ABS – Non-Agency RMBS securities have a fair value of approximately \$ 1.0 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 June 30, 2023 and December 31, 2022:

	June 30, 2023			December 31, 2022	
	Carrying Value	Estimated Fair Value	Fair Value Method ^(A)	Carrying Value	Estimated Fair Value
Assets					
Real estate securities, available-for-sale	\$ 1,033	\$ 1,033	Pricing models - Level 3	\$ 1,631	\$ 1,631
Cash and cash equivalents	15,873	15,873		12,345	12,345
Restricted cash, current and noncurrent	4,338	4,338		4,589	4,589
Liabilities					
Junior subordinated notes payable	\$ 51,156	\$ 51,004	Pricing models - Level 3	\$ 51,169	\$ 12,479
Entertainment Golf facility	\$ 14,597	\$ 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:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

- 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: - I Amount and timing of expected future cash flows - I Interest rates - I Market yields and the credit spread of the Company

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Numerator for basic and diluted earnings per share:				
Loss from continuing operations after preferred dividends	\$ 1,031	\$ (10,828)	\$ (5,297)	\$ (31,191)
Loss Applicable to Common Stockholders	<u>\$ 1,031</u>	<u>\$ (10,828)</u>	<u>\$ (5,297)</u>	<u>\$ (31,191)</u>
Denominator:				
Denominator for basic earnings per share - weighted average shares	92,385,019	92,378,928	92,385,019	92,316,851
Effect of dilutive securities				
Options	—	—	—	—
RSUs	<u>161,538</u>	<u>—</u>	<u>—</u>	<u>—</u>
Denominator for diluted earnings per share - adjusted weighted average shares	<u>92,546,557</u>	<u>92,378,928</u>	<u>92,385,019</u>	<u>92,316,851</u>
Basic earnings per share:				
Gain (loss) from continuing operations per share of common stock after preferred dividends	\$ 0.01	\$ (0.12)	\$ (0.06)	\$ (0.34)
Loss Applicable to Common Stock, per share	<u>\$ 0.01</u>	<u>\$ (0.12)</u>	<u>\$ (0.06)</u>	<u>\$ (0.34)</u>
Diluted earnings per share:				
Gain (loss) from continuing operations per share of common stock after preferred dividends	\$ 0.01	\$ (0.12)	\$ (0.06)	\$ (0.34)
Loss Applicable to Common Stock, per share	<u>\$ 0.01</u>	<u>\$ (0.12)</u>	<u>\$ (0.06)</u>	<u>\$ (0.34)</u>

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 82,685 potentially dilutive securities during the six months ended June 30, 2023 and 100,659 and 75,829 potentially dilutive securities during the three and six months ended June 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

Stock Options

The following is a summary of the changes in the Company's outstanding options for the six months ended June 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 June 30, 2023	<u>1,645,121</u>	<u>\$ 3.77</u>	0.741
Exercisable at June 30, 2023	1,461,421	\$ 3.75	0.692

As of June 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	<u>1,645,121</u>

(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 \$41 during the three and six months ended June 30, 2023, respectively, and \$0.1 million and \$0.2 million during the three and six months ended June 30, 2022, respectively, and is recorded in general and administrative expense on the Consolidated Statements of Operations. During the six months ended June 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 \$42 as of June 30, 2023 and will be expensed over a weighted average of 0.5 years.

Restricted Stock Units (RSUs)

The following is a summary of the changes in the Company's RSUs for the six months ended June 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 June 30, 2023	<u>161,538</u>	\$ 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(Dollars in tables in thousands, except share data)

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 six months ended June 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 six months ended June 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 six months ended June 30, 2023. Stock-based compensation related to RSUs totaled \$0.1 million and \$0.1 million during the three and six months ended June 30, 2022, respectively. During the six months ended June 30, 2022, the Company reversed \$0.3 million in stock compensation expense related to certain previously issued RSUs. There was no unrecognized stock-based compensation expense related to the unvested RSUs as of June 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 June 30, 2023, \$2.3 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. If the Series C Preferred or Series D Preferred 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 Company has the option to redeem the Series C Preferred or Series D Preferred, as applicable, at their liquidation preference and, during such time any shares of Series C Preferred or Series D Preferred are outstanding; upon this occurrence, the dividend also increased to 9.05% or 9.375% per annum, respectively.

The company has delisted from NYSE as such the rate will be subject to change.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(Dollars in tables in thousands, except share data)

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 June 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 June 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

Environmental Costs — As a commercial real estate owner, the Company is subject to potential environmental costs. At June 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 June 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 June 30, 2023, the total nominal value of initiation fee deposits was approximately \$246.4 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 June 30, 2023, has been reduced to an undiscounted nominal value of \$114.3 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 June 30, 2023 the Trusts had refunded a total of approximately \$0.9 million of MDLs under the terms of the assumption agreements.

Restricted Cash — Approximately \$4.3 million of restricted cash at June 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 June 30, 2023, the Company has additional operating leases that have not yet commenced of \$24.1 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 June 30, 2023, \$2.3 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

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 \$0.1 million for the three and six months ended June 30, 2023, respectively and \$0.9 million and \$1.6 million for the three and six months ended June 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 valuation allowance against its deferred tax assets as of June 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 June 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 June 30, 2023 and December 31, 2022, the Company reported a total liability for unrecognized tax benefits of \$0.8 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.

Note 15. IMPAIRMENT

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

	Three Months Ended June 30,		Six Months Ended June 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 six months ended June 30, 2023, the Company recorded no impairment charges.

During the six months ended June 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.

During the six months ended June 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

JUNE 30, 2023

(Dollars in tables in thousands, except share data)

Note 16. SUBSEQUENT EVENTS

The Company has evaluated subsequent events through the filing of this Quarterly Report.

On July 21, 2023, the Puttery in Minneapolis, Minnesota opened for operations.

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.

In the third quarter of 2023, the Company determined to defer payment of compensation to the Board of Directors in respect of the 2022 fiscal year, including both the accrued cash and unaccrued non-cash portion as of December 31, 2022, to a date subsequent to the date of filing of this Quarterly Report, and finalize the amount, if any, of compensation to the Board of Directors in respect of the 2023 fiscal year to a date subsequent to the date of filing of this Quarterly Report.

ITEM 2. 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 June 30, 2023, the Company operated six leased Puttery venues located in The Colony, Texas; Charlotte, North Carolina; Washington, D.C; Chicago, Illinois; Pittsburgh, Pennsylvania; and Houston, Texas. The Company is committed to four additional Puttery leases for venues in Miami, New York City (Manhattan), Minneapolis, and Kansas City. 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 venues.

Traditional Golf Business

Our traditional golf business, American Golf, is one of the largest operators of golf properties in the United States. As of June 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 six months ended June 30, 2023 and 2022:

(dollar amounts in thousands)	Three Months Ended June 30,		Increase (Decrease)	
	2023	2022	Amount	%
Revenues				
Golf operations (A)	\$ 75,642	\$ 67,577	\$ 8,065	11.9 %
Sales of food and beverages	22,477	19,112	3,365	17.6 %
Total revenues	98,119	86,689	11,430	13.2 %
Operating costs				
Operating expenses (A)	71,791	65,473	6,318	9.6 %
Cost of sales - food and beverages	5,860	5,788	72	1.2 %
General and administrative expense	5,159	11,558	(6,399)	(55.4)%
Depreciation and amortization	6,751	6,132	619	10.1 %
Pre-opening costs	1,234	1,938	(704)	(36.3)
(Gain) loss on lease terminations and impairment	32	2,161	(2,129)	(98.5)%
Total operating costs	90,827	93,050	(2,223)	(2.4)%
Operating income (loss)	7,292	(6,361)	(13,653)	(214.6)%
Other income (expenses)				
Interest and investment income	(441)	216	(657)	(304.2)%
Interest expense, net	(3,879)	(3,547)	332	9.4 %
Other income (loss), net	(463)	993	(1,456)	146.6 %
Total other income (expenses)	(4,783)	(2,338)	(2,445)	(104.6)%
Income (loss) before income tax	\$ 2,509	\$ (8,699)	\$ (11,208)	(128.8)%
(dollar amounts in thousands)	Six Months Ended June 30,		Increase (Decrease)	
	2023	2022	Amount	%
Revenues				
Golf operations (A)	\$ 135,831	\$ 122,861	\$ 12,970	10.6 %
Sales of food and beverages	39,747	32,810	6,937	21.1 %
Total revenues	175,578	155,671	19,907	12.8 %
Operating costs				
Operating expenses (A)	134,092	120,613	13,479	11.2 %
Cost of sales - food and beverages	10,618	9,149	1,469	16.1 %
General and administrative expense	12,558	20,622	(8,064)	(39.1)%
Depreciation and amortization	13,426	12,325	1,101	8.9 %
Pre-opening costs	2,912	2,685	227	8.5 %
(Gain) loss on lease terminations and impairment	34	15,032	(14,998)	(99.8)%
Realized and unrealized (gain) on investments	—	—	—	
Total operating costs	173,640	180,426	(6,786)	(3.8)%
Operating income (loss)	1,938	(24,755)	(26,693)	(107.8)%
Other income (expenses)				
Interest and investment income	(227)	416	(643)	(154.6)%
Interest expense, net	(5,971)	(6,194)	(223)	(3.6)%
Gain (loss) on extinguishment of debt	—	—	—	
Other income (loss), net	1,903	3,640	(1,737)	47.7 %
Total other income (expenses)	(4,295)	(2,138)	(2,157)	(100.9)%
Loss before income tax	\$ (2,357)	\$ (26,893)	\$ (24,536)	(91.2)%

(A) Includes \$15.1 million and \$27.5 million for the three and six months ended June 30, 2023, and \$15.2 million and \$28.2 million for the three and six months ended June 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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Golf operations	\$ 75,642	\$ 67,577	\$ 8,065	11.9 %
Percentage of total revenue	77.1 %	78.0 %		

Revenues from golf operations increased by \$8.0 million primarily due to a \$3.5 million increase in entertainment venues as compared to the prior period. The increase in entertainment venues was due to the addition of 4 Puttery venues compared to the same period last year. Puttery saw total guests of 0.2 million in current year versus 0.1 million in prior year with Golf Operation revenue of \$5.7 million vs. \$2.4 million. Drive Shack revenue from Golf Operations was slightly lower with \$4.8 million in the current period vs. \$5.0 million in the prior period. This was primarily due to fewer guests of 0.2 million in the current period versus 0.3 million in prior year. Revenues from Golf Operations for Traditional Golf increased a total of \$5.1 million compared to the prior period primarily from the addition of 3 new courses which contributed \$2.5 million in revenue. Traditional Golf same store revenue increased by \$2.0 million compared to the prior period primarily due to an increase in greens fees driven by a 5% increase in ADR.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Golf operations	\$ 135,831	\$ 122,861	\$ 12,970	10.6 %
Percentage of total revenue	77.4 %	78.9 %		

Revenues from golf operations increased by \$12.9 million primarily due to the addition of the 4 Puttery locations on the Entertainment Golf side. Traditional Golf revenue increased compared to the prior period due to increase in Green Fees at the same store level as well as the addition of 3 new leased courses.

Sales of Food and Beverages

	Three Months Ended		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Sales of food and beverages	\$ 22,477	\$ 19,112	\$ 3,365	17.6 %
Percentage of total revenue	22.9 %	22.0 %		

Sales of food and beverages increased by \$3.4 million, due to a \$1.4 million increase in Entertainment , and a \$2.0 million increase in Traditional Golf.

The increase in Entertainment Golf was primarily due to the addition of 4 Puttery locations between the current period and the prior period. Puttery saw total Food and Beverage revenues of \$3.8 million in the current year versus \$2.1 million in the prior

year comparative period, an increase of \$1.7 million. Puttery same store revenue for Colony and Charlotte for Sales of Food and beverages for the current period was lower by \$0.5 million compared to the same period last year primarily due to fewer walk in guests. Drive Shack revenue from Sales of Food and Beverage was slightly lower by 5% with \$5.8 million in the current period vs. \$6.2 million in the prior period. This was primarily due to fewer guests than the same period during the previous year.

Traditional Golf Revenue from Sales of food and beverages was \$12.8 million for the current period compared to \$10.8 million for same period prior year. This was primarily due to an increase at the same store level of \$1.8 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.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Sales of food and beverages	\$ 39,747	\$ 32,810	\$ 6,937	21.1 %
Percentage of total revenue	22.6 %	21.1 %		

Sales of food and beverages increased by \$6.9 million, due to a \$4.0 million increase in Entertainment Golf, and a \$1.9 million increase in Traditional Golf. The increase in Entertainment Golf was primarily due to the addition of 4 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 3 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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Operating expenses	\$ 71,791	\$ 65,473	\$ 6,318	9.6 %
Percentage of total revenue	73.2 %	75.5 %		

Operating expenses increased by \$6.2 million, primarily due to a \$3.9 million increase in Entertainment Golf, and a net \$2.3 million increase in Traditional Golf.

Entertainment Golf operating expenses increased due to the addition of four Puttery locations, \$12.4 million versus \$8.5 million in the prior year comparative period. \$2.0 million of this was due to payroll and related expenses, \$0.7 million was due to Rent and related expenses, and \$1.2 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 \$0.6 million.

Traditional Golf gross operating expense increased by \$4.0 million primarily due to the addition of 3 leased courses, and a \$0.8 million increase in property insurance expense for the current period compared to the prior period. This was offset by a reduction in utilities cost of \$1.4 million for the current period compared to the prior period due to record rainfall in the LA region during March 2023 which led to significant savings in water and irrigation costs.

Traditional same store operating expense increased by a net amount of \$0.5 million.

(dollar amounts in thousands)	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
Operating expenses	\$ 134,092	\$ 120,613	\$ 13,479	11.2 %
Percentage of total revenue	76.4 %	77.5 %		

Operating expenses increased by \$13.5 million, primarily due to a \$8.7 million increase in Entertainment Golf due to the addition of four Puttery locations, a net \$12.7 million increase in Traditional Golf primarily due to the addition of 3 leased courses and increases insurance cost, 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. Increases in traditional golf were primarily 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.

Cost of Sales - Food and Beverages

(dollar amounts in thousands)	Three Months Ended		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
Cost of sales - food and beverages	\$ 5,860	\$ 5,788	\$ 72	1.2 %
Percentage of total revenue	6.0 %	6.7 %		

Cost of sales - food and beverages increased by a total of \$0.1 million across both business segments.

Entertainment Golf saw a net reduction of \$0.1 million. Cost of sales for food and beverages increase by \$0.7 million due to the addition of four Puttery locations compared to the last period. This was netted out against a reduction in cost of sales for food and beverages same store level across the Entertainment Golf Venues which reduced by \$0.8 million in line with the reduction in revenues for those venues compared to the same period in the prior year.

Traditional Golf cost of Sales for food and beverages increase slightly by \$0.2 million compared to the same period last year.

(dollar amounts in thousands)	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
Cost of sales - food and beverages	\$ 10,618	\$ 9,149	\$ 1,469	16.1 %
Percentage of total revenue	6.0 %	5.9 %		

Cost of sales - food and beverages increased by \$1.5 million both Entertainment and Traditional Golf mainly driven by the addition of the four Puttery venues in Entertainment 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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
General and administrative expense	\$ 5,159	\$ 11,558	\$ (6,399)	(55.4)%
Percentage of total revenue	5.3 %	13.3 %		

General and administrative expense decreased by \$6.4 million consisting of a \$0.4 million decrease in Entertainment golf, a \$1.0 million decrease at Traditional Golf, and a \$5.1 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 the current period.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
General and administrative expense	\$ 12,558	\$ 20,622	\$ (8,064)	(39.1)%
Percentage of total revenue	7.2 %	13.2 %		

Total General and administrative expense decreased by \$8.1 million across all company segments during the six months ended June 30, 2023 primarily due reductions in payroll and related expenses of \$4.3 million related to reductions corporate headcount, reductions professional fees related to legal and accounting services of \$1.5 million, public company related expenses of \$0.6 million, and general cost reduction related to corporate expenses which took effect in the current period.

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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Depreciation and amortization	\$ 6,751	\$ 6,132	\$ 619	10.1 %
Percentage of total revenue	6.9 %	7.1 %		

Depreciation and amortization increased by \$0.6 million primarily due to additions of the four Puttery locations in Washington DC, Houston, Texas, Chicago, Illinois, and Pittsburgh, Pennsylvania compared to the prior period, which are partially offset by certain assets becoming fully depreciated.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Depreciation and amortization	\$ 13,426	\$ 12,325	\$ 1,101	8.9 %
Percentage of total revenue	7.6 %	7.9 %		

Depreciation and amortization increased by \$0.6 million primarily due to additions of the four Puttery locations in Washington DC, Houston, Texas, Chicago, Illinois, and Pittsburgh, Pennsylvania 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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Pre-opening costs	\$ 1,234	\$ 1,938	\$ (704)	(36.3)%
Percentage of total revenue	1.3 %	2.2 %		

The increase is due to the ongoing development of Puttery venues that have not opened yet.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Pre-opening costs	\$ 2,912	\$ 2,685	\$ 227	8.5 %
Percentage of total revenue	1.7 %	1.7 %		

Pre-opening expenses for the six months ended June 30, 2023 include expenses for the Puttery location in Pittsburgh, Pennsylvania which opened in February 2023. This also includes expenses for sites under development during the period which are Minneapolis, Minnesota, which opened in July 2023, and Kansas City, Missouri, which will open in September 2023. 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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
(Gain) loss on lease terminations and impairment	\$ 32	\$ 2,161	\$ (2,129)	(98.5)%
Percentage of total revenue	— %	2.5 %		

Loss on lease terminations and impairment decreased by \$2.1 million. The decrease is driven by impairment charges related to Dyker Beach and the Puttery location in Philadelphia in 2022.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
(Gain) loss on lease terminations and impairment	\$ 34	\$ 15,032	\$ (14,998)	(99.8)%
Percentage of total revenue	— %	9.7 %		

Loss on lease terminations and impairment decreased by \$15.0 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)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest and investment income	\$ (441)	\$ 216	\$ (657)	(304.2)%
Percentage of total revenue	(0.4)%	0.2 %		

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest and investment income	\$ (227)	\$ 416	\$ (643)	(154.6)%
Percentage of total revenue	(0.1)%	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.

	Three Months Ended		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest expense, net	\$ (3,879)	\$ (3,547)	\$ 332	9.4 %
Percentage of total revenue	(4.0)%	(4.1)%		

Interest expense increased by \$0.3 million during the period, which included \$0.6 million paid for debt facility on Entertainment Golf, \$0.9m paid for interest on the Junior subordinated notes, and \$2.1 million net accretion of interest on membership deposit liabilities for the current period.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest expense, net	\$ (5,971)	\$ (6,194)	\$ (223)	(3.6)%
Percentage of total revenue	(3.4)%	(4.0)%		

Interest expense, net decreased by less than \$0.2 million, not a significant change. The net decrease in interest expense is due

to the decrease of interest accretion related to membership deposit liabilities offset by the interest accrued to service the new debt facility.

Other Income (Loss), Net

	Three Months Ended		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Other income (loss), net	\$ (463)	\$ 993	\$ (1,456)	146.6 %
Percentage of total revenue	(0.5)%	1.1 %		

Other income (loss) decreased in the current period due to accounting treatment to move income from investment securities recorded to the correct account – Interest and Investment income.

	Six Months Ended June 30,		Increase (Decrease)	
	June 30, 2023	June 30, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Other income (loss), net	\$ 1,903	\$ 3,640	\$ (1,737)	47.7 %
Percentage of total revenue	1.1 %	2.3 %		

Other income (loss), net decreased by \$1.7 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		Increase (Decrease)
	June 30, 2023	June 30, 2022	Amount
Revenues			
Golf operations	\$ 10,516	\$ 7,397	\$ 3,119
Sales of food and beverages	9,707	8,316	1,391
Total revenues	20,223	15,713	4,510
Total operating costs	20,997	19,798	1,199
Operating loss	\$ (774)	\$ (4,085)	\$ (3,311)

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 Washington DC, Houston, Texas, Chicago, Illinois, and Pittsburgh, Pennsylvania compared to the prior period.

Operating loss

The decrease in operating loss during the three months ended June 30, 2023 was mainly due to higher revenues from the opening of new Puttery venues along with lower total operating costs compared to the prior period.

(in thousands)	Six Months Ended		Increase (Decrease)
	June 30, 2023	June 30, 2022	Amount
Revenues			
Golf operations	\$ 20,784	\$ 13,827	\$ 6,957
Sales of food and beverages	20,030	16,066	3,964
Total revenues	40,814	29,893	10,921
Total operating costs	42,711	50,604	(7,893)
Operating loss	\$ (1,897)	\$ (20,711)	\$ (18,814)

Total revenues

The increase in total entertainment golf revenues during the six months ended June 30, 2023 due to the addition of four Puttery venues in Washington DC, Houston, Texas, Chicago, Illinois, and Pittsburgh, Pennsylvania compared to the prior period.

Operating loss

The decrease in operating loss during the six months ended June 30, 2023 was mainly due to higher revenues from the opening of new Puttery venues along with lower total operating costs compared to the prior period. 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.

Traditional Golf

(in thousands)	Three Months Ended		Increase (Decrease)
	June 30, 2023	June 30, 2022	Amount
Revenues			
Golf operations	\$ 65,126	\$ 59,972	\$ 5,154
Sales of food and beverages	12,770	10,796	1,974
Total revenues	77,896	70,768	7,128
Total operating costs	68,169	66,609	1,560
Operating income (loss)	\$ 9,727	\$ 4,159	\$ 5,568

Total revenues

The increase in total traditional golf revenues during the three months ended June 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, coupled with a significant savings from water and irrigation costs of \$1.5 million.

(in thousands)	Six Months Ended		Increase (Decrease)
	June 30, 2023	June 30, 2022	Amount
Revenues			
Golf operations	\$ 115,047	\$ 108,641	\$ 6,406
Sales of food and beverages	19,717	16,744	2,973
Total revenues	134,764	125,385	9,379
Total operating costs	125,118	120,562	4,556
Operating income (loss)	\$ 9,646	\$ 4,823	\$ 4,823

Total revenues

The increase in total traditional golf revenues during the six months ended June 30, 2023 was primarily due to the addition of 3 leased courses contributing revenue of \$4.1 million, increase in green fees of \$1.4 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 three months ended June 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 \$1.6 million.

Corporate

	Three Months Ended		Increase (Decrease)
	June 30, 2023	June 30, 2022	Amount
<i>(in thousands)</i>			
Revenues			
Golf operations	\$ —	\$ 208	\$ (208)
Total revenues	—	208	(208)
Total operating costs	1,661	6,643	(4,982)
Operating loss	\$ (1,661)	\$ (6,435)	\$ 4,774

Total revenues

The decrease in total corporate revenues during the three months ended June 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.

	Six Months Ended		Increase (Decrease)
	June 30, 2023	June 30, 2022	Amount
<i>(in thousands)</i>			
Revenues			
Golf operations	\$ —	\$ —	\$ —
Total revenues	—	—	—
Total operating costs	5,811	9,260	(3,449)
Operating loss	\$ (5,811)	\$ (8,867)	\$ 3,056

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 June 30, 2023, we had \$15.9 million of available cash, including \$7.9 million of cash from the traditional golf business.

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 \$16.0 million, excluding transaction costs with the option to draw the remainder of the amount on or before September 1, 2023.

The Company also launched a rights offering in the third quarter of 2023 to qualified institutions that held common stock to raise additional funds at an aggregate value of \$13.5 million.

Summary of Cash Flows

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

	Six Months Ended June 30,	
	2023	2022
Net cash (used in) provided by:		
Operating activities	\$ 14,267	\$ (3,738)
Investing activities	(25,100)	(8,183)
Financing activities	14,110	(3,650)
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	\$ 3,277	\$ (15,571)

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 \$14.3 million for the six months ended June 30, 2023, and \$3.7 million for the six months ended June 30, 2022.

Increases in operating cash flows were 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, 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.

Net cash used in investing activities was \$25.1 million during the six months ended June 30, 2023 and \$8.2 million during the six months ended June 30, 2022.

Capital Expenditures. Our capital expenditures for the six months ended June 30, 2023 were \$18.4 million for development of Puttery venues for Entertainment Golf. Capital expenditures for Traditional Golf was \$6.7 million primarily used in rebuilding properties that were damaged in 2022.

We expect our capital expenditures over the next 12 months to range between \$25million and \$30 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 with 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 \$14.1 million during the six months ended June 30, 2023. The increase was primarily due to net proceeds from our loan facility for Entertainment Golf that was completed on March 3, 2023.

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 six months ended June 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 six months ended June 30, 2023, the Company commenced no new leases.

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 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

There have been no material changes to our exposure to market risks as described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2022.

PART II. OTHER INFORMATION

Item 1. 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 1A. Risk Factors

There were no material changes to the risk factors in our Annual Report for the fiscal year ended December 31, 2022.

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

None.

SIGNATURES

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

DRIVE SHACK INC.

By: /s/ Mike Compton

Interim Chief Executive Officer and President

September 13, 2023

By: /s/ Prem Metharam

Interim Principal Financial Officer

September 13, 2023