

# Drive Shack Inc.

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75231

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SIC Code:

## Quarterly Report

**For the period ending** March 31, 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 March 31, 2023.

**DRIVE SHACK INC.**  
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**PART I. FINANCIAL INFORMATION**  
**ITEM 1. FINANCIAL STATEMENTS**

**DRIVE SHACK INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**

	(unaudited)	
	March 31, 2023	December 31, 2022
<b>Assets</b>		
Current assets		
Cash and cash equivalents	\$ 18,758	\$ 12,345
Restricted cash	4,412	4,373
Accounts receivable, net	5,586	8,305
Real estate securities, available-for-sale	1,375	1,631
Other current assets	28,038	24,872
Total current assets	58,169	51,526
Restricted cash, noncurrent	216	216
Property and equipment, net of accumulated depreciation	204,020	198,442
Operating lease right-of-use assets	184,222	189,993
Intangibles, net of accumulated amortization	13,613	14,108
Other assets	3,486	3,696
Total assets	\$ 463,726	\$ 457,981
<b>Liabilities and Deficit</b>		
Current liabilities		
Obligations under finance leases	\$ 4,403	\$ 4,761
Membership deposit liabilities	22,479	22,479
Accounts payable and accrued expenses	43,064	41,477
Deferred revenue	25,749	29,490
Other current liabilities	28,452	28,904
Total current liabilities	124,147	127,111
Credit facilities and obligations under finance leases - noncurrent	5,012	5,849
Operating lease liabilities - noncurrent	177,017	177,867
Long-term debt	14,841	—
Junior subordinated notes payable	51,161	51,169
Membership deposit liabilities, noncurrent	110,470	109,762
Deferred revenue, noncurrent	10,926	11,303
Other liabilities	2,196	1,877
Total liabilities	\$ 495,770	\$ 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 March 31, 2023 and December 31, 2022

\$ 61,583 \$ 61,583

Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 92,385,019 and 92,385,019 shares issued and outstanding at March 31, 2023 and December 31, 2022, respectively.

924 924

Additional paid-in capital

3,232,166 3,232,104

Accumulated deficit

(3,332,685) (3,326,357)

Accumulated other comprehensive income (loss)

— (281)

Total deficit of the company

\$ (38,012) \$ (32,027)

Noncontrolling interest

5,968 5,070

Total deficit

\$ (32,044) \$ (26,957)

Total liabilities and equity

\$ 463,726 \$ 457,981

See notes to Consolidated Financial Statements.

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

(Dollars in thousands, except share data)

	Three Months Ended March 31,	
	2023	2022
<b>Revenues</b>		
Golf operations	\$ 60,189	\$ 55,284
Sales of food and beverages	17,270	13,698
Total revenues	77,459	68,982
<b>Operating costs</b>		
Operating expenses	62,301	55,139
Cost of sales - food and beverages	4,758	3,361
General and administrative expense	7,399	9,063
Depreciation and amortization	6,675	6,193
Pre-opening costs	1,678	747
Loss on lease terminations and impairment	2	12,871
Total operating costs	82,813	87,374
Operating loss	(5,354)	(18,392)
<b>Other income (expenses)</b>		
Interest and investment income	214	201
Interest expense, net	(2,092)	(2,646)
Other income	2,366	2,645
Total other income (expenses)	488	200
Loss before income tax	(4,866)	(18,192)
Income tax expense	49	721
Consolidated net loss	(4,915)	(18,913)
Less: net income attributable to noncontrolling interest	18	53
Net loss attributable to the Company	(4,933)	(18,966)
Preferred dividends	(1,395)	(1,395)
Loss applicable to common stockholders	<u>\$ (6,328)</u>	<u>\$ (20,361)</u>
<b>Loss applicable to common stock, per share</b>		
Basic	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>
Diluted	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>
<b>Weighted average number of shares of common stock outstanding</b>		
Basic	<u>92,385,019</u>	<u>92,254,084</u>
Diluted	<u>92,385,019</u>	<u>92,254,084</u>

See notes to Consolidated Financial Statements.

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

(Dollars in thousands, except share data)

	Three Months Ended March 31,	
	2023	2022
Net loss	\$ (4,915)	\$ (18,913)
Other comprehensive loss:		
Reclassification of net unrealized loss on securities into earnings	(281)	—
Other comprehensive loss	(281)	—
Total comprehensive loss	\$ (5,196)	\$ (18,913)
Comprehensive income attributable to noncontrolling interest	18	53
Comprehensive loss attributable to the Company	\$ (5,214)	\$ (18,966)

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN DEFICIT (unaudited)**

FOR THE THREE MONTHS ENDED MARCH 31, 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					
<b>Equity (deficit) - December 31, 2022</b>	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	—	—	—	—	—	(4,933)	—	18	(4,915)
Other comprehensive loss	—	—	—	—	—	—	281	—	281
Total comprehensive loss	—	—	—	—	—	—	—	—	\$ (4,634)
<b>Equity (deficit) - March 31, 2023</b>	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>92,385,019</u>	<u>\$ 924</u>	<u>\$ 3,232,166</u>	<u>\$ (3,332,685)</u>	<u>\$ —</u>	<u>\$ 5,968</u>	<u>\$ (32,044)</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					
<b>Equity (deficit) - December 31, 2021</b>	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)
Net income (loss)	—	—	—	—	—	(18,966)	—	53	(18,913)
Total comprehensive loss	—	—	—	—	—	—	—	16	\$ (18,913)
<b>Equity (deficit) - March 31, 2022</b>	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>92,362,845</u>	<u>\$ 921</u>	<u>\$ 3,232,912</u>	<u>\$ (3,289,237)</u>	<u>\$ 1,163</u>	<u>\$ 1,472</u>	<u>\$ 8,814</u>

See notes to Consolidated Financial Statements.

**DRIVE SHACK INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)**

(Dollars in thousands, except share data)

	Three Months Ended March 31,	
	2023	2022
<b>Cash Flows From Operating Activities</b>		
Net loss	\$ (4,915)	\$ (18,913)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,675	6,193
Amortization of discount and premium	(202)	(171)
Other amortization	974	2,044
Amortization of revenue on golf membership deposit liabilities	—	(508)
Amortization of prepaid golf membership dues	(15,559)	(3,935)
Non-cash operating lease expense	5,035	736
Stock-based compensation	20	(696)
Loss on lease terminations and impairment	2	12,871
Gain from insurance proceeds for property loss	(1,275)	(2,781)
Other losses, net	(1,111)	120
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	(733)	(1,220)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	19,500	3,798
Net cash provided by (used in) operating activities	8,411	(2,462)
<b>Cash Flows From Investing Activities</b>		
Insurance proceeds for property loss	1,275	2,781
Acquisition and additions of property and equipment and intangibles	(16,929)	(10,964)
Net cash used in investing activities	(15,654)	(8,183)
<b>Cash Flows From Financing Activities</b>		
Proceeds from debt, net of issuance costs	14,841	—
Repayments of debt obligations	(1,257)	(1,499)
Golf membership deposits received	—	45
Capital contributions received	1,041	—
Capital distribution paid	—	(40)
Preferred stock dividends paid	(1,395)	(1,395)
Other financing activities	(266)	(761)
Net cash provided by (used in) financing activities	12,964	(3,650)
<b>Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent</b>	<b>5,721</b>	<b>(14,295)</b>
<b>Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period</b>	<b>16,934</b>	<b>62,564</b>
<b>Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period</b>	<b>\$ 22,655</b>	<b>\$ 48,269</b>
<b>Supplemental Schedule of Non-Cash Investing and Financing Activities</b>		
Preferred stock dividends declared but not paid	\$ 930	\$ 930
Additions to finance lease assets and liabilities	\$ 95	\$ 1,297
Decreases in accounts payable and accrued expenses related to the purchase of property and equipment	\$ (5,264)	\$ (235)
Additions for right of use assets in exchange for new operating lease liabilities	\$ (1,356)	\$ 21,467
Cash paid during the period for interest expense	\$ 1,034	\$ 540
Cash paid during the period for income taxes	\$ —	\$ —

See notes to Consolidated Financial Statements.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

MARCH 31, 2023

(Dollars in tables in thousands, except share data)

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**Note 1. ORGANIZATION**

Drive Shack Inc., which is referred to in this Quarterly Report, 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 voluntarily delisted its securities from the NYSE and deregistered under Section 12(b) its securities will during the first quarter of 2023.

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 March 31, 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 March 31, 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 are prepared in accordance with U.S. generally accepted accounting principles or GAAP. The Consolidated Financial Statements include the accounts of the Company and its consolidated subsidiaries. All significant intercompany transactions and balances have been eliminated. The Company consolidates those entities in which it has an investment of 50% or more and has control over significant operating, financial and investing decisions of the entity.

**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)

MARCH 31, 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)

MARCH 31, 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:

	March 31, 2023	December 31, 2022
Cash and cash equivalents	\$ 18,758	12,345
Restricted cash	4,412	4,373
Restricted cash, noncurrent	216	216
Total Cash and cash equivalents, Restricted cash and Restricted cash, noncurrent	<u>\$ 23,386</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 \$0.3 million as of March 31, 2023 and \$0.4 million as of 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:

	March 31, 2023	December 31, 2022
Managed property receivables	\$ 10,823	\$ 10,559
Prepaid expenses	3,072	2,421
Deposits	957	1,307
Inventory	3,392	2,828
Miscellaneous current assets, net	9,794	7,757
Other current assets	<u>\$ 28,038</u>	<u>\$ 24,872</u>

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

	March 31, 2023	December 31, 2022
Prepaid expenses	\$ 182	\$ 182
Deposits	2,942	3,014
Miscellaneous assets, net	362	500
Other assets	<u>\$ 3,486</u>	<u>\$ 3,696</u>

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

	March 31, 2023	December 31, 2022
Operating lease liabilities	\$ 18,613	\$ 18,946
Accrued rent	3,556	3,803
Dividends payable	930	930
Miscellaneous current liabilities	5,353	5,225
Other current liabilities	<u>\$ 28,452</u>	<u>\$ 28,904</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 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 March 31, 2023, has been reduced to an undiscounted nominal value of \$115 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 March 31, 2023 the Trusts had refunded a total of approximately \$0.7 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 March 31,	
	2023	2022
Collateral management fee income, net	\$ —	\$ 37
Insurance proceeds	1,275	2,781
Loss on sale of long-lived assets and intangibles	—	(38)
Gain on Lease Modification/Termination	—	42
Other gain (loss)	1,091	(177)
Other gain (loss), net	<u>\$ 2,366</u>	<u>\$ 2,645</u>

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 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 March 31, 2023						
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	Corporate	Total
Golf operations	\$ 10,268	\$ 21,704	\$ 14,447	\$ 13,770	\$ —	\$ 60,189
Sales of food and beverages	10,323	5,028	1,919	—	—	17,270
Total revenues	<u>\$ 20,591</u>	<u>\$ 26,732</u>	<u>\$ 16,366</u>	<u>\$ 13,770</u>	<u>\$ —</u>	<u>\$ 77,459</u>

  

Three Months Ended March 31, 2022						
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	Corporate	Total
Golf operations	\$ 6,428	\$ 19,506	\$ 14,565	\$ 14,602	\$ 183	\$ 55,284
Sales of food and beverages	7,749	4,364	1,585	—	—	13,698
Total revenues	<u>\$ 14,177</u>	<u>\$ 23,870</u>	<u>\$ 16,150</u>	<u>\$ 14,602</u>	<u>\$ 183</u>	<u>\$ 68,982</u>

(A) Includes \$12.4 million and \$13.0 million for the three months ended March 31, 2023, and for the three months ended March 31, 2022, respectively, related to management contract reimbursements reported under ASC 606.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2023

(Dollars in tables in thousands, except share data)

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**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 March 31, 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; Houston, Texas; and Pittsburgh, Pennsylvania.

The Company's traditional golf segment is one of the largest operators of golf courses and country clubs in the United States. As of March 31, 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).

**DRIVE SHACK INC. AND SUBSIDIARIES**
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Summary financial data on the Company's segments is given below, together with a reconciliation to the same data for the Company as a whole:

Three Months Ended March 31, 2023	Entertainment Golf	Traditional Golf	Corporate	Total
<b>Revenues</b>				
Golf operations	\$ 10,268	\$ 50,154	\$ —	\$ 60,422
Sales of food and beverages	10,323	6,947	—	17,270
Total revenues	20,591	57,101	—	77,692
<b>Operating costs</b>				
Operating expenses	12,958	48,824	752	62,534
Cost of sales - food and beverages	2,722	2,036	—	4,758
General and administrative expense <sup>(A)</sup>	332	3,816	3,251	7,399
Depreciation and amortization	4,050	2,504	121	6,675
Pre-opening costs <sup>(B)</sup>	1,652	—	26	1,678
(Gain) Loss on lease terminations and impairment	—	2	—	2
Total operating costs	21,714	57,182	4,150	83,046
Operating income (loss)	(1,123)	(81)	(4,150)	(5,354)
<b>Other income (expenses)</b>				
Interest and investment income	—	15	199	214
Interest expense <sup>(C)</sup>	(33)	(1,101)	(958)	(2,092)
Other income (loss), net	—	2,588	(222)	2,366
Total other income (expenses)	(33)	1,502	(981)	488
Income tax expense	—	—	49	49
Net income (loss)	(1,156)	1,421	(5,180)	(4,915)
Less: net income (loss) attributable to NCI	18	—	—	18
Net loss attributable to the company	(1,174)	1,421	(5,180)	(4,933)
Preferred dividends	—	—	(1,395)	(1,395)
Net income (loss) applicable to common stockholders	\$ (1,174)	\$ 1,421	\$ (6,575)	\$ (6,328)

March 31, 2023	Entertainment Golf	Traditional Golf	Corporate	Eliminations	Total
Total assets	\$ 213,828	\$ 252,312	\$ —	\$ (258)	\$ 465,882
Total liabilities	79,074	334,253	82,700	(258)	495,769
Preferred stock	—	—	61,583	—	61,583
Noncontrolling interest	5,968	—	—	—	5,968
Equity (loss) attributable to common stockholders	\$ 128,786	\$ (81,941)	\$ (144,283)	\$ —	\$ (97,438)
<b>Additions to property and equipment (including finance leases) during the three months ended March 31, 2023</b>	<b>\$ 9,907</b>	<b>\$ 95</b>	<b>\$ 22</b>	<b>\$ —</b>	<b>\$ 10,024</b>

**DRIVE SHACK INC. AND SUBSIDIARIES**
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<b>Three Months Ended March 31, 2022</b>	<b>Entertainment Golf</b>	<b>Traditional Golf</b>	<b>Corporate</b>	<b>Total</b>
<b>Revenues</b>				
Golf operations	\$ 6,428	\$ 48,673	\$ 183	\$ 55,284
Sales of food and beverages	7,749	5,949	—	13,698
Total revenues	14,177	54,622	183	68,982
<b>Operating costs</b>				
Operating expenses	8,260	46,815	64	55,139
Cost of sales - food and beverages	1,743	1,618	—	3,361
General and administrative expense <sup>(A)</sup>	3,726	2,894	2,443	9,063
Depreciation and amortization	3,441	2,644	108	6,193
Pre-opening costs <sup>(C)</sup>	747	—	—	747
(Gain) Loss on lease terminations and impairment	12,889	(18)	—	12,871
Total operating costs	30,806	53,953	2,615	87,374
Operating loss	(16,629)	669	(2,432)	(18,392)
<b>Other income (expenses)</b>				
Interest and investment income	1	26	174	201
Interest expense <sup>(D)</sup>	(58)	(2,249)	(339)	(2,646)
Other income (loss), net	(16)	2,628	33	2,645
Total other income (expenses)	(73)	405	(132)	200
Income tax expense	31	—	690	721
Net income (loss)	(16,733)	1,074	(3,254)	(18,913)
Less: net loss attributable to NCI	—	—	53	53
Net loss attributable to the company	(16,733)	1,074	(3,307)	(18,966)
Preferred dividends	—	—	(1,395)	(1,395)
Loss applicable to common stockholders	<u>\$ (16,733)</u>	<u>\$ 1,074</u>	<u>\$ (4,702)</u>	<u>\$ (20,361)</u>
<b>March 31, 2022</b>				
Total assets	\$ 191,043	\$ 258,616	\$ 30,058	\$ 479,717
Total liabilities	68,520	337,113	65,270	470,903
Preferred stock	—	—	61,583	61,583
Noncontrolling interest	1,852	—	(380)	1,472
Equity	<u>\$ 120,671</u>	<u>\$ (78,497)</u>	<u>\$ (96,415)</u>	<u>\$ (54,241)</u>
<b>Additions to property and equipment (including finance leases) during the three months ended March 31, 2022</b>	<u>\$ 10,459</u>	<u>\$ 1,759</u>	<u>\$ (686)</u>	<u>\$ 11,532</u>

- (A) General and administrative expenses included severance expenses of \$0.0 million and \$0.2 million for the three months ended March 31, 2023 and for the three months ended March 31, 2022, respectively.
- (B) Pre-opening costs are expensed as incurred and consist primarily of venue-related marketing expenses, lease expense, employee payroll, travel and related expenses, training costs, food, beverage and other operating expenses incurred prior to opening an entertainment golf venue.
- (C) Interest expense included the accretion of membership deposit liabilities in the amount of \$1.0 million and \$2.0 million for the three months ended March 31, 2023 and for the three months ended March 31, 2022, respectively.



**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

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**Note 5. PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION**

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

	March 31, 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	188,730	(57,697)	131,033	180,802	(54,999)	125,803
Furniture, fixtures and equipment	69,669	(40,368)	29,301	67,097	(37,796)	29,301
Finance leases - equipment	23,980	(14,085)	9,895	24,911	(13,991)	10,920
Construction in progress	27,021	—	27,021	25,648	—	25,648
Total Property and Equipment	<u>\$ 316,170</u>	<u>\$ (112,150)</u>	<u>\$ 204,020</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 months ended March 31, 2023, the Company commenced no new leases.

**Note 7. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION**

The following table summarizes the Company's intangible assets:

	March 31, 2023			December 31, 2022		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (216)	\$ 484	\$ 700	\$ (210)	\$ 490
Management contracts	21,887	(12,797)	9,090	28,488	(19,043)	9,445
Internally-developed software	2,984	(1,151)	1,833	2,977	(1,024)	1,953
Membership base	764	(127)	637	4,012	(3,361)	651
Non-amortizable liquor licenses	1,569	—	1,569	1,569	—	1,569
Total Intangibles	<u>\$ 27,904</u>	<u>\$ (14,291)</u>	<u>\$ 13,613</u>	<u>\$ 37,746</u>	<u>\$ (23,638)</u>	<u>\$ 14,108</u>

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## Note 8. DEBT

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

		March 31, 2023							December 31, 2022		
Debt Obligation/ Collateral	Month Issued	Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Coupon	Weighted Average Funding Cost <sup>(A)</sup>	Weighted Average Life (Years)	Face Amount of Floating Rate Debt	Outstandin g Face Amount	Carrying Value	
Credit Facilities and Finance Leases											
Current and long-term portion of debt	Mar-2023	\$ 16,000	\$ 14,841	May 2027	3-month SOFR+8. 50%	3-month SOFR+8. 50%	4.2	\$ —	\$ —	\$ —	
Vineyard II	Dec 1993	\$ 200	\$ 200	Dec 2043	1.79%	5.03 %	21.2	\$ —	\$ 200	\$ 200	
Finance leases (Equipment)	Jan 2017 - Apr 2022	9,215	9,215	Jun 2022 - Aug 2027	3.95% to 8.65%	5.69 %	3.3	—	10,410	10,410	
		9,415	9,415			5.73 %	3.6	—	10,610	10,610	
Less current portion of obligations under finance leases		4,403	4,403						4,761	4,761	
Credit facilities and obligations under finance leases - noncurrent		5,012	5,012						5,849	5,849	
Corporate											
Junior subordinated notes payable <sup>(B)</sup>	Mar 2006	51,004	51,161	Apr 2035	LIBOR+2. 25%	7.05 %	9.81	51,004	51,004	51,169	
Total debt obligations		\$ 60,419	\$ 60,576			5.15 %	8.9	\$ 51,004	\$ 61,614	\$ 61,779	

(A) Including the effect of deferred financing costs of \$1.2 million.

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

On March 8, 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 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.

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**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). As of March 31, 2023, the remaining ABS – Non-Agency RMBS securities have a face amount of \$3.5 million and a fair value of approximately \$3.5 million. See Note 10 regarding the estimation of fair value, which is equal to carrying value for all securities.

The Company had one security in an unrealized loss position as of March 31, 2023.

**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 March 31, 2023:

	March 31, 2023			December 31, 2022	
	Carrying Value	Estimated Fair Value	Fair Value Method <sup>(A)</sup>	Carrying Value	Estimated Fair Value
<b>Assets</b>					
Real estate securities, available-for-sale	\$ 1,375	\$ 1,375	Pricing models - Level 3	\$ 1,631	\$ 1,631
Cash and cash equivalents	18,758	18,758		12,345	12,345
Restricted cash, current and noncurrent	4,628	4,628		4,589	4,589
<b>Liabilities</b>					
Junior subordinated notes payable	\$ 51,161	\$ 35,307	Pricing models - Level 3	\$ 51,169	\$ 12,479

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

**Fair Value Measurements**

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

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

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

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

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

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

With respect to fair value estimates generated based on the Company's internal pricing models, the Company's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third-party market parameters and models, where available, for reasonableness. The Company believes its valuation methods and the assumptions used are appropriate and consistent with those of other market participants.

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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. There were no movements in or out of the level three investment during the quarter.

***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:

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

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## 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 March 31,	
	2023	2022
Numerator for basic and diluted earnings per share:		
Loss from continuing operations after preferred dividends	\$ (6,328)	\$ (20,361)
Loss Applicable to Common Stockholders	<u>\$ (6,328)</u>	<u>\$ (20,361)</u>
Denominator:		
Denominator for basic earnings per share - weighted average shares	92,385,019	92,254,084
Effect of dilutive securities		
Options	—	—
RSUs	—	—
Denominator for diluted earnings per share - adjusted weighted average shares	<u>92,385,019</u>	<u>92,254,084</u>
Basic earnings per share:		
Loss from continuing operations per share of common stock after preferred dividends	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>
Loss Applicable to Common Stock, per share	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>
Diluted earnings per share:		
Loss from continuing operations per share of common stock after preferred dividends	<u>\$ (0.07)</u>	<u>\$ (0.22)</u>
Loss Applicable to Common Stock, per share	<u>\$ (0.07)</u>	<u>\$ (0.22)</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. During the three months ended March 31, 2023 and 2022, the Company had no potentially dilutive securities and 50,724 potentially dilutive securities, respectively, which were excluded due to the Company's loss position. Net loss applicable to common stockholders is equal to net loss less preferred dividends.

Stock Options

The following is a summary of the changes in the Company's outstanding options for the three months ended March 31, 2023:

	Number of Options	Weighted Average Strike Price	Weighted Average Life Remaining (in years)
Balance at December 31, 2022	2,994,430	\$ 3.24	
Expired	(899,539)	\$ 1.00	
Balance at March 31, 2023	<u>2,094,891</u>	<u>\$ 3.66</u>	0.8
Exercisable at March 31, 2023	1,911,191	\$ 3.62	0.8

As of March 31, 2023, the Company's outstanding options were summarized as follows:

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	Number of Options
Held by a former Manager	1,911,191
Granted to the former Manager and subsequently transferred to certain former Manager's employees <sup>(A)</sup>	183,700
Total	2,094,891

(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 \$20.4 thousand during the three months ended March 31, 2023, and \$0.1 million during the three months ended March 31, 2022, respectively, and is recorded in general and administrative expense on the Consolidated Statements of Operations. During the three months ended March 31, 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 \$0.1 million as of March 31, 2023 and will be expensed over a weighted average of 0.8 years.

**Restricted Stock Units (RSUs)**

The following is a summary of the changes in the Company's RSUs for the three months ended March 31, 2023.

	Number of RSUs	Weighted Average Grant Date Fair Value (per unit)
Balance at December 31, 2022	161,538	\$ 1.71
Balance at March 31, 2023	161,538	\$ 1.71

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

The Company grants RSUs to the non-employee directors as part of their annual compensation. The RSUs are subject to a one-year vesting period. During the three months ended March 31, 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 months ended March 31, 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. There was no stock-based compensation expense related to RSUs for the three months ended March 31, 2023 and \$0.1 million for three months ended March 31, 2022, respectively. Stock-based compensation expense is recorded in general and administrative expense on the Consolidated Statements of Operations. During the three months ended March 31, 2022, the Company reversed \$0.3 million in stock compensation expense related to certain previously issued RSUs. The is no unrecognized stock-based compensation expense related to the unvested RSUs as of March 31, 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 March 31, 2023, \$0.9 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

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**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% 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% 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 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; Houston, Texas; and Pittsburgh, Pennsylvania.

**Note 12. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES****Agreements with the Former Manager**

At March 31, 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 1.9 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 March 31, 2023, will not materially affect the Company's consolidated results of operations, financial position or cash flow. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

**Environmental Costs** — As a commercial real estate owner, the Company is subject to potential environmental costs. At March 31, 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 \$1.2 million as of March 31, 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 March 31, 2023, the total nominal value of initiation fee deposits was approximately \$248.1 million with annual maturities through 2051.

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MARCH 31, 2023

(Dollars in tables in thousands, except share data)

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 March 31, 2023, has been reduced to an undiscounted nominal value of \$115 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 March 31, 2023 the Trusts had refunded a total of approximately \$0.7 million of MDLs under the terms of the assumption agreements.

**Restricted Cash** — Approximately \$4.4 million of restricted cash at March 31, 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 March 31, 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 March 31, 2023, \$0.9 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

**Note 14. INCOME TAXES**

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

The Company's income tax provision was \$54.0 thousand and for the three months ended March 31, 2023, and \$0.7 million for the three months ended March 31, 2022, respectively.

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

The Company recorded a full valuation allowance against its deferred tax assets as of March 31, 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 March 31, 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 March 31, 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:



## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2023

(Dollars in tables in thousands, except share data)

	Three Months Ended March 31,	
	2023	2022
(Gain) loss on lease terminations	2	35
Impairment on entertainment golf properties (held-for-use)	—	12,854
Other (gains) loss	—	(18)
Total loss on impairment	<u>\$ 2</u>	<u>\$ 12,871</u>

During the three months ended March 31, 2023 the Company recorded no impairment charges. During the three months ended March 31, 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. 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. The Company evaluated the recoverability of the carrying value of these assets using the income approach based on future assumptions of cash flows. The development of discounted cash flow models used to estimate the fair value of the asset groups required the application of significant judgement in determining market participant assumptions, including the projected sublease income over the remaining lease terms, expected downtime prior to the commencement of future subleases, expected lease incentives offered to future tenants, and discount rates that reflected the level of risk associated with these future cash flows. As the fair value inputs utilized are unobservable, the Company determined that the significant inputs used to value these properties fall within Level 3 for fair value reporting.

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

MARCH 31, 2023

(Dollars in tables in thousands, except share data)

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**Note 16. SUBSEQUENT EVENTS**

The Company has evaluated subsequent events through the filing of this Quarterly Report, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements.

## 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 March 31, 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 March 31, 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 months ended March 31, 2023 and 2022:

(dollar amounts in thousands)	Three Months Ended March 31,		Increase (Decrease)	
	2023	2022	Amount	%
<b>Revenues</b>				
Golf operations (A)	\$ 60,189	\$ 55,284	\$ 4,905	8.9 %
Sales of food and beverages	17,270	13,698	3,572	26.1 %
Total revenues	77,459	68,982	8,477	12.3 %
<b>Operating costs</b>				
Operating expenses (A)	62,301	55,139	7,162	13.0 %
Cost of sales - food and beverages	4,758	3,361	1,397	41.6 %
General and administrative expense	7,399	9,063	(1,664)	(18.4)%
Depreciation and amortization	6,675	6,193	482	7.8 %
Pre-opening costs	1,678	747	931	124.6
Loss on lease terminations and impairment	2	12,871	(12,869)	(100.0)%
Total operating costs	82,813	87,374	(4,561)	(5.2)%
<b>Operating gain loss</b>	(5,354)	(18,392)	(13,038)	(70.9)%
<b>Other income (expenses)</b>				
Interest and investment income	214	201	13	6.5 %
Interest expense, net	(2,092)	(2,646)	(554)	(20.9)%
Other income	2,366	2,645	(279)	10.5 %
Total other income (expenses)	488	200	(820)	410.0 %
<b>Loss before income tax</b>	\$ (4,866)	\$ (18,192)	\$ (14,137)	(77.7)%

(A) Includes \$12.4 million and \$13.0 million for the three months ended March 31, 2023, and for the three months ended March 31, 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.

(dollar amounts in thousands)	Three Months Ended		Increase (Decrease)	
	March 31, 2023	March 31, 2022	Amount	%
Golf operations	\$ 60,189	\$ 55,284	\$ 4,905	8.9 %
Percentage of total revenue	77.7 %	80.1 %		

The primary increase in revenue is due to the addition of five Puttery locations between the current period and the prior period. Puttery saw total guests of 0.2 million for the first quarter of 2023 compared to the comparable period in the prior year of 0.1 million with Golf Operation revenue of \$5.9 million vs. \$2.1 million, an increase of \$3.8 million. Drive Shack revenue from Golf Operations stayed flat at \$4.3 million for both periods. Traditional golf increased by \$4.6 million during the same period due to an increase in events as compared to prior year.

## Sales of Food and Beverages

	Three Months Ended		Increase (Decrease)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Sales of food and beverages	\$ 17,270	\$ 13,698	\$ 3,572	26.1 %
Percentage of total revenue	22.3 %	19.9 %		

The primary increase in revenue is due to the addition of five Puttery locations between the current period and the prior period. Puttery saw total Food and Beverage revenues of \$4.8 million for the first quarter of 2023 compared to the comparable period in the prior year of \$2.2 million, an increase of \$2.5 million. Drive Shack revenue from Food and Beverage stayed flat at \$5.5 million for both periods. The increase in traditional golf was primarily due to the return of tournament and large group event-related revenues.

## 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)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Operating expenses	\$ 62,301	\$ 55,139	\$ 7,162	13.0 %
Percentage of total revenue	80.4 %	79.9 %		

At the venue level, operating expenses increased due to the addition of the Puttery locations, \$6.8 million for the first quarter of 2023 compared to the comparable period in the prior year of \$2.2 million. Drive shack saw a \$0.2 million increase in payroll related expenses. Total operating expenses were \$6.2 million for the first quarter of 2023 compared to the comparable period in the prior year of \$5.9 million. Operating expenses at the corporate level were \$0.8 million for the first quarter of 2023 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

	Three Months Ended		Increase (Decrease)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Cost of sales - food and beverages	\$ 4,758	\$ 3,361	\$ 1,397	41.6 %
Percentage of total revenue	6.1 %	4.9 %		

Cost of sales - food and beverages increased by \$1.4 million directionally in-line with corresponding increase in food and beverage sales in traditional golf and entertainment golf. This increase was mainly driven by higher traffic at our venues for the first quarter of 2023 compared to the comparable period in the prior year.

### 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)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
General and administrative expense	\$ 7,399	\$ 9,063	\$ (1,664)	(18.4)%
Percentage of total revenue	9.6 %	13.1 %		

General and administrative expense decreased by \$1.7 million primarily due to a reduction in professional services related to the elimination of expenses related to being publicly traded on the New York Stock Exchange and an overall reduction in costs associated with reduced corporate headcount.

### 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)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Depreciation and amortization	\$ 6,675	\$ 6,193	\$ 482	7.8 %
Percentage of total revenue	8.6 %	9.0 %		

Depreciation and amortization increased by \$0.5 million primarily due to additions in the Puttery locations in The Colony, Texas, Charlotte, North Carolina, Washington, D.C., and Houston, Texas, 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)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Pre-opening costs	\$ 1,678	\$ 747	\$ 931	124.6 %
Percentage of total revenue	2.2 %	1.1 %		

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

### 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)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Loss on lease terminations and impairment	\$ 2	\$ 12,871	\$ (12,869)	(100.0)%
Percentage of total revenue	— %	18.7 %		

Loss on lease terminations and impairment decreased by \$12.9 million. The decrease is 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 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)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest and investment income	\$ 214	\$ 201	\$ 13	6.5 %
Percentage of total revenue	0.3 %	0.3 %		

There was no significant change in interest and investment income.

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

### **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 interest paid to service new debt facility for entertainment golf.

	Three Months Ended		Increase (Decrease)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest expense, net	\$ (2,092)	\$ (2,646)	\$ (554)	(20.9)%
Percentage of total revenue	(2.7)%	(3.8)%		

Interest expense, net decreased by less than \$0.6 million. 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 that began during the current period.

### **Other Income (Loss), Net**

	Three Months Ended		Increase (Decrease)	
	March 31, 2023	March 31, 2022	Amount	%
<i>(dollar amounts in thousands)</i>				
Other income	\$ 2,366	\$ 2,645	\$ (279)	10.5 %
Percentage of total revenue	3.1 %	3.8 %		

Other income (loss), net decreased by \$-0.3 million primarily due to insurance proceeds received related to fire damages at two traditional golf venues in 2021 offset by realized losses on the real estate security.

## SEGMENT RESULTS

### Entertainment Golf

(in thousands)	Three Months Ended		Increase (Decrease)
	March 31, 2023	March 31, 2022	Amount
Revenues			
Golf operations	\$ 10,268	\$ 6,428	\$ 3,840
Sales of food and beverages	10,323	7,749	2,574
Total revenues	20,591	14,177	6,414
Total operating costs	21,714	30,806	(9,092)
Operating loss	\$ (1,123)	\$ (16,629)	\$ (15,506)

#### **Total revenues**

The increase in total entertainment golf revenues during the three months ended March 31, 2023 was due to the operation of four additional Puttery venues for the first quarter of 2023 compared to the comparable period in the prior year.

#### **Operating loss**

The decrease in operating loss during the three months ended March 31, 2023 was due to the operation of four additional Puttery venues for the first quarter of 2023 compared to the comparable period in the prior year. In addition, there was decrease in operating costs for the first quarter of 2023 compared to the comparable period in the prior year due to impairment charges related to our Drive Shack New Orleans venue and other equipment.

### Traditional Golf

(in thousands)	Three Months Ended		Increase (Decrease)
	March 31, 2023	March 31, 2022	Amount
Revenues			
Golf operations	\$ 50,154	\$ 48,673	\$ 1,481
Sales of food and beverages	6,947	5,949	998
Total revenues	57,101	54,622	2,479
Total operating costs	57,182	53,953	3,229
Operating income (loss)	\$ (81)	\$ 669	\$ (750)

#### **Total revenues**

The increase in total traditional golf revenues during the three months ended March 31, 2023 was primarily due to increased revenue as demand for events remain strong as well as the addition of three courses compared to the comparable period in the prior year.

#### **Operating income**

The decrease of our operating income during the three months ended March 31, 2023 was primarily due to payroll and payroll-related expenses allocated to our traditional golf segment as part of our alignment of corporate allocations.



## **Corporate**

	Three Months Ended		Increase (Decrease)
	March 31, 2023	March 31, 2022	Amount
<i>(in thousands)</i>			
Revenues			
Golf operations	\$ —	\$ 183	\$ (183)
Total revenues	—	183	(183)
Total operating costs	4,150	2,615	1,535
Operating loss	\$ (4,150)	\$ (2,432)	\$ (1,718)

### ***Total revenues***

The decrease in total corporate revenues during the three months ended March 31, 2023 was primarily due to income generated through the sub-lease of its corporate assets located in New York, NY recorded in other income for the first quarter of 2023 compared to the comparable period in the prior year.

### ***Operating loss***

The increase in operating loss during the three months ended March 31, 2023 was primarily due to allocation of payroll expenses and payroll-related expenses related to the entertainment segment to the corporate segment for the first quarter of 2023 compared to the comparable period in the prior year.

## 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 March 31, 2023, we had \$18.8 million of available cash, including \$9.3 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 \$16.5 million, excluding transaction costs with the option to draw the remainder of the amount on or before September 1, 2023.

As of March 31, 2023, we had \$18.8 million of available cash.

### Summary of Cash Flows

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

	Three Months Ended March 31,	
	2023	2022
Net cash (used in) provided by:		
Operating activities	\$ 9,142	\$ (2,462)
Investing activities	(15,654)	(8,183)
Financing activities	12,964	(3,650)
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	\$ 6,452	\$ (14,295)

### 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 used in operating activities was \$9.1 million for the three months ended March 31, 2023 and Net cash used in operating activities was \$2.5 million for the three months ended March 31, 2022. Changes in operating cash flow activities are described below:

- Operating cash flows increased due to the following:
  - \$0.1 million in net operating cash flows generated from traditional golf operations;
  - \$0.2 million in net operating cash flows used in the entertainment golf venues.

- Operating cash flows decreased due to the following:
  - \$4.3 million decrease in corporate payroll primarily due to decreases in headcount;
  - \$8.0 million primarily due to less general and administrative payments.

### 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 \$15.7 million during the three months ended March 31, 2023 and \$8.2 million during the three months ended March 31, 2022.

*Capital Expenditures.* Our capital expenditures for the three months ended March 31, 2023 and 2022 were \$16.9 million and \$11.0 million, respectively.

We expect our capital expenditures over the next 12 months to range between \$30 and \$40 million, depending on the Company's ability to obtain additional financing, which includes developing new Drive Shack and Puttery venues and remodeling and maintaining existing facilities.

### 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 used \$13.0 million during the three months ended March 31, 2023 and provided \$3.7 million during the three months ended March 31, 2022. The decrease was primarily due to \$0.0 million of net proceeds from our equity raise that was completed on February 2, 2021.

### **Off-Balance Sheet Arrangements**

There have been no significant changes to our off-balance sheet arrangements as disclosed in our Annual Report for the fiscal year ended December 31, 2022.

### **CONTRACTUAL OBLIGATIONS**

During the three months ended March 31, 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 months ended March 31, 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 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

June 20, 2023

By: /s/ Prem Metharam

Interim Principal Financial Officer

June 20, 2023