

Drive Shack Inc.

A Maryland Corporation
10670 N. Central Expressway
Suite 700
75231

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

Quarterly Report

For the period ending September 30, 2024
(the "Reporting Period")

Securities:

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

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

The number of shares outstanding of the registrant's common stock was 199,442,524 as of November 21, 2024.

Our Company's transfer agent is the Equiniti Trust Company, LLC. Equiniti Trust Company, LLC is registered under the U.S. Securities and Exchange Commission in accordance with the requirements of Securities Exchange of 1934. They can be contacted through telephone at:

Office: 1-877-864-4750
equiniti.com/us/ast-access

Or in writing at:

Equiniti Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219

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QUARTERLY REPORT
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

GrantThomson

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors and Stockholders
Drive Shark Inc. and Subsidiaries

Results of review of interim financial information
We have reviewed the accompanying consolidated interim financial information of Drive Shark Inc. (a Maryland corporation) and subsidiaries (the "Company") which comprise the consolidated balance sheet, and the related consolidated statements of operations, comprehensive loss, changes in equity (deficit), and cash flows, as of September 30, 2024 and for the three month and nine month period ended September 30, 2024 and the related notes (collectively referred to as the "interim financial information").

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial information to be in accordance with accounting principles generally accepted in the United States of America.

Basis for review results

We conducted our review in accordance with auditing standards generally accepted in the United States of America (US GAAS), applicable to reviews of interim financial information. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. A review of interim financial information is substantially less in scope than an audit conducted in accordance with US GAAS, the objective of which is an expression of opinion regarding the financial information as a whole, and accordingly, we do not express such an opinion. We are required to be independent of the Company and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our review. We believe that the review procedures provide a reasonable basis for our conclusion.

Responsibilities of management for the interim financial information
Management is responsible for the preparation and fair presentation of the interim financial information in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal controls relevant to the preparation and fair presentation of interim financial information that is free from material misstatement, whether due to fraud or error.

Other matter

The consolidated operations of the Company as of December 31, 2023, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the year then ended (not presented herein) were audited by other auditors who expressed an unmodified opinion on those financial statements in their report dated, May 31, 2024.



The accompanying consolidated interim financial statements of the Company as of September 30, 2023, and for the three month and nine month period then ended were not reviewed by us, and accordingly, we do not express any form of assurance on them.

Grant Thornton LLP

Kansas City, Missouri
November 21, 2024

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

	September 30, 2024	
	(unaudited)	December 31, 2023
Assets		
Current assets		
Cash and cash equivalents	\$ 21,974	\$ 12,407
Restricted cash	4,662	3,204
Accounts receivable, net	7,387	10,779
Real estate assets, trading	—	392
Other current assets	21,923	25,489
Total current assets	55,946	52,271
Restricted cash, noncurrent	216	216
Property and equipment, net of accumulated depreciation	194,412	197,680
Operating lease right-of-use assets	170,171	162,241
Intangibles, net of accumulated amortization	10,979	12,500
Other assets	10,662	10,965
Total assets	\$ 442,386	\$ 435,873
Liabilities and Equity		
Current liabilities		
Obligations under finance leases	\$ 2,721	\$ 3,409
Membership deposit liabilities	31,826	26,323
Accounts payable and accrued expenses	33,220	41,984
Deferred revenue	17,212	15,731
Credit facilities – current	1,296	1,325
Other current liabilities	27,849	16,200
Total current liabilities	114,124	104,972
Obligations under finance leases – noncurrent	4,143	5,772
Operating lease liabilities – noncurrent	183,343	176,469
Credit facilities, net – noncurrent	18,422	23,686
Junior subordinated notes payable	51,142	51,150
Membership deposit liabilities, noncurrent	112,704	111,617
Deferred revenue, noncurrent	17,964	14,989
Other liabilities	266	212
Total liabilities	\$ 502,108	\$ 488,867
Commitments and contingencies		

Equity

Preferred stock, \$0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share, issued and outstanding as of September 30, 2024 and December 31, 2023	\$	61,583	\$	61,583
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 199,442,524 and 159,544,168 shares issued and outstanding at September 30, 2024 and December 31, 2023, respectively		1,994		1,595
Additional paid-in capital		3,248,828		3,246,823
Accumulated deficit		(3,377,197)		(3,368,801)
Total deficit of the company	\$	(64,792)	\$	(58,800)
Noncontrolling interest		5,070		5,806
Total deficit	\$	(59,722)	\$	(52,994)
Total liabilities and deficit	\$	442,386	\$	435,873

See notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Revenues				
Golf operations	\$ 68,351	\$ 75,363	\$ 192,709	\$ 206,789
Sales of food and beverages	22,413	24,973	68,752	69,125
Total revenues	90,764	100,336	261,461	275,914
Operating costs				
Operating expenses	71,304	79,414	202,186	213,506
Cost of sales - food and beverages	5,866	5,713	16,998	16,331
General and administrative expense	4,260	5,491	12,386	18,049
Depreciation and amortization	7,325	8,572	21,911	21,998
Pre-opening costs	211	1,957	1,711	4,869
Loss on lease terminations and impairment	387	36	514	70
Total operating costs	89,353	101,183	255,706	274,823
Operating income (loss)	1,411	(847)	5,755	1,091
Other income (expenses)				
Interest and investment income	11	298	27	71
Interest expense	(4,709)	(2,857)	(13,744)	(8,828)
Other income (expense), net	225	192	(241)	2,095
Total other (expenses) income	(4,473)	(2,367)	(13,958)	(6,662)
Loss before income tax	(3,062)	(3,214)	(8,203)	(5,571)
Income tax expense (benefit)	159	(80)	385	24
Consolidated net loss	(3,221)	(3,134)	(8,588)	(5,595)
Less: net income (loss) attributable to noncontrolling interest	(133)	(59)	(192)	(13)
Net loss attributable to the Company	(3,088)	(3,075)	(8,396)	(5,582)
Preferred dividends	(1,465)	(1,395)	(4,395)	(4,185)
Loss applicable to common stockholders	\$ (4,553)	\$ (4,470)	\$ (12,791)	\$ (9,767)
Loss applicable to common stock, per share				
Basic	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ (0.10)
Diluted	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ (0.10)
Weighted average number of shares of common stock outstanding				
Basic	170,993,346	95,787,087	169,614,430	93,523,211
Diluted	170,993,346	95,787,087	169,614,430	93,523,211

See notes to unaudited Consolidated Financial Statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Net loss	\$ (3,221)	\$ (3,134)	\$ (8,588)	\$ (5,595)
Other comprehensive income:				
Net unrealized gain on available-for-sale securities	—	—	—	281
Other comprehensive income	—	—	—	281
Total comprehensive loss	\$ (3,221)	\$ (3,134)	\$ (8,588)	\$ (5,314)
Comprehensive loss attributable to noncontrolling interest	(133)	(59)	(192)	(13)
Comprehensive loss attributable to the Company	\$ (3,088)	\$ (3,075)	\$ (8,396)	\$ (5,301)

See notes to unaudited Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT) (unaudited)
(Dollars in thousands, except share data)

	Drive Shack Inc. Stockholders							
	Preferred Stock		Common Stock		Additional Paid-in Capital	Accumulated Deficit	Noncontrolling Interest	Total Equity (Deficit)
	Shares	Amount	Shares	Amount				
Equity (deficit) - December 31, 2023	2,463,321	\$ 61,583	159,544,168	\$ 1,595	\$ 3,246,823	\$ (3,368,801)	\$ 5,806	\$ (52,994)
Stock-based compensation	—	—	11,449,178	114	2,290	—	—	2,404
Issuance of restricted stock	—	—	28,449,178	285	(285)	—	—	—
Net loss	—	—	—	—	—	(4,832)	(11)	(4,843)
Equity (deficit) - March 31, 2024	2,463,321	\$ 61,583	199,442,524	\$ 1,994	\$ 3,248,828	\$ (3,373,633)	\$ 5,795	\$ (55,433)
Capital distribution	—	—	—	—	—	—	(291)	(291)
Net loss	—	—	—	—	—	(476)	(48)	(524)
Equity (deficit) - June 30, 2024	2,463,321	\$ 61,583	199,442,524	\$ 1,994	\$ 3,248,828	\$ (3,374,109)	\$ 5,456	\$ (56,248)
Capital distribution	—	—	—	—	—	—	(253)	(253)
Net loss	—	—	—	—	—	(3,088)	(133)	(3,221)
Equity (deficit) - September 30, 2024	2,463,321	\$ 61,583	199,442,524	\$ 1,994	\$ 3,248,828	\$ (3,377,197)	\$ 5,070	\$ (59,722)

	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									\$ (4,634)
Equity (deficit) - March 31, 2023	2,463,321	\$ 61,583	92,385,019	\$ 924	\$ 3,232,166	\$ (3,332,685)	\$ —	\$ 5,968	\$ (32,044)
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	21	—	—	—	21
Capital Contribution	—	—	—	—	2,039	—	—	808	2,847
Capital Distribution	—	—	—	—	—	—	—	(127)	(127)
Net income	—	—	—	—	—	2,426	—	28	2,454
Equity (deficit) - June 30, 2023	2,463,321	\$ 61,583	92,385,019	\$ 924	\$ 3,234,226	\$ (3,331,654)	\$ —	\$ 6,677	\$ (28,244)
Dividends declared	—	—	—	—	—	(1,395)	—	—	(1,395)
Stock-based compensation	—	—	—	—	21	—	—	—	21
Rights Offering, net	—	—	10,675,454	107	13,293	—	—	—	13,400
Net loss	—	—	—	—	—	(3,075)	—	(59)	(3,134)
Equity (deficit) - September 30, 2023	2,463,321	\$ 61,583	103,060,473	\$ 1,031	\$ 3,247,540	\$ (3,336,124)	\$ —	\$ 6,618	\$ (19,352)

See notes to unaudited Consolidated Financial Statements.

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

	Nine Months Ended September 30,	
	2024	2023
Cash Flows From Operating Activities		
Net loss	\$ (8,588)	\$ (5,595)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	21,911	21,998
Amortization of discount and premium on debt	462	167
Other amortization	6,786	4,133
Amortization of prepaid golf membership dues	—	(10,098)
Non-cash operating lease expense	4,734	12,427
Stock-based compensation	2,404	62
Loss on lease terminations and impairment	514	70
Gain from insurance proceeds for property loss	(1,730)	(1,275)
Other losses	2,817	308
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	7,261	(6,358)
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	3,369	(4,870)
Net cash provided by operating activities	<u>39,940</u>	<u>10,969</u>
Cash Flows From Investing Activities		
Proceeds from sale of investments	392	—
Insurance proceeds for property loss	1,730	1,275
Purchases of property and equipment and intangibles	(20,084)	(37,719)
Proceeds from sale of property and equipment	—	8
Net cash used in investing activities	<u>(17,962)</u>	<u>(36,436)</u>
Cash Flows From Financing Activities		
Borrowings under debt obligations	—	16,174
Repayments of debt obligations	(9,314)	(3,922)
Payment of deferred financing costs	(175)	(1,643)
Issuance of common stock	—	13,400
Capital contributions received	—	4,133
Capital distribution paid	(544)	(245)
Preferred stock dividends paid	—	(1,395)
Other financing activities	(920)	(548)
Net cash provided by (used in) financing activities	<u>(10,953)</u>	<u>25,954</u>
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	11,025	487
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period	15,827	16,934
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period	\$ 26,852	\$ 17,421
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends accumulated but not paid	\$ 4,395	\$ 3,720
Additions to finance lease assets and liabilities	\$ 1,008	\$ 95
Additions to property and equipment and accounts payable	\$ 3,455	\$ (2,225)
Additions for right of use assets in exchange for new operating lease liabilities	\$ 21,006	\$ 2,330
Cash paid during the period for interest expense	\$ 6,600	\$ 2,886
Cash paid during the period for income taxes	\$ 194	\$ 1,605

See notes to unaudited Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

SEPTEMBER 30, 2024

(Dollars 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 September 30, 2024, the Company's entertainment golf segment was comprised of fourteen owned or leased entertainment golf venues across nine states and the District of Columbia with locations in Orlando, Florida; Miami, Florida; West Palm Beach, Florida; Raleigh, North Carolina; Richmond, Virginia; The Colony, Texas; Charlotte, North Carolina; Washington, D.C; Chicago, Illinois; Pittsburgh, Pennsylvania; Houston, Texas; Kansas City, Missouri; New York City, New York; and Minneapolis, Minnesota. The Company opened the Puttery venues in Miami, Florida in January 2024 and New York City, New York in March 2024.

The Company's traditional golf segment is one of the largest operators of traditional golf properties in the United States. As of September 30, 2024, the Company owned, leased or managed forty-three (43) traditional golf properties across seven states. Effective June 30, 2024, we exited one management agreement related to a public managed course. Effective January 15, 2024, the Company did not renew the leases for three public courses at the time of expiration, and on January 1, 2024, we exited nine management agreements related to private managed courses.

The corporate segment consists primarily of securities and other investments (see Note 9) 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. 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, 2023 and notes thereto included in the Company's Annual Report dated May 31, 2024. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report for the fiscal year ended December 31, 2023.

All 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. The portions of equity in consolidated subsidiaries that are not attributable, directly or indirectly, to us are presented as noncontrolling interest.

Reclassifications — Certain reclassifications have been made to prior year statement of operations to conform to classifications used in the current year specifically related to the classification of types of revenue in the entertainment golf segment. These reclassifications had no impact on net loss, equity or cash flows as previously reported.

Use of Estimates — Our estimates are based on information available to management at the time of preparation of the Consolidated Financial Statements, including the result of historical analysis, our understanding and experience of the Company's operations, our knowledge of the industry and market-participant data available to us. Actual results have historically been in line with management's estimates and judgments used in applying each of the accounting policies, and management periodically re-evaluates accounting estimates and assumptions. Actual results could differ from these estimates and materially impact our Consolidated Financial Statements. However, the Company does not expect our assessments and assumptions to materially change in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2024

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

Recently Issued Accounting Standards - In December 2023, the FASB issued ASU No. 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" (ASU 2023-09), which includes amendments that further enhance income tax disclosures through the standardization and disaggregation of rate reconciliation categories and income taxes paid in both domestic and foreign jurisdictions. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024 and is to be applied prospectively, with early adoption and retrospective application permitted. The Company is in the process of evaluating the impact that ASU 2023-09 will have on our income tax related disclosures.

In November 2023, the FASB issued ASU No. 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"), which introduces new reportable segment disclosure requirements related to significant segment expenses and also expands reportable segment disclosure requirements for interim reporting. The amendment will require public entities to disclose significant segment expenses that are regularly provided to the chief operating decision maker and are included within each reportable segment's profits and losses. ASU 2023-07 is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company is in the process of evaluating the impact that ASU 2023-07 will have on our segment related disclosures.

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 "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. Financing lease liabilities are amortized using the effective interest method with the related expense recognized in "Interest expense" on the Consolidated Statement 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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2024

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

future cash flows using an appropriate discount rate.

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. Restricted cash is used as credit enhancement for the performance of lease agreements and certain insurance claims.

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

	September 30, 2024	December 31, 2023
Cash and cash equivalents	\$ 21,974	12,407
Restricted cash	4,662	3,204
Restricted cash, noncurrent	216	216
Total Cash and cash equivalents, Restricted cash and Restricted cash, noncurrent	<u>\$ 26,852</u>	<u>\$ 15,827</u>

Accounts Receivable, Net — Accounts receivable are stated at amounts due from customers, net of an allowance for credit losses of \$0.1 million and \$0.3 million as of September 30, 2024 and December 31, 2023, respectively. The allowance for credit losses is based upon several factors including the length of time the receivables are past due, historical payment trends, current economic factors, and our expectations of future events that affect collectability. Collateral is generally not required.

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

	September 30, 2024	December 31, 2023
Managed property receivables	\$ 7,547	\$ 13,280
Prepaid expenses	10,480	8,860
Inventory	3,762	3,108
Miscellaneous current assets, net	134	241
Other current assets	<u>\$ 21,923</u>	<u>\$ 25,489</u>

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

	September 30, 2024	December 31, 2023
Deposits	10,055	9,695
Miscellaneous assets, net	607	1,270
Other assets	<u>\$ 10,662</u>	<u>\$ 10,965</u>

Deferred Revenue — Payments received in advance of the performance of services are recorded as deferred revenue until the performance obligation has been satisfied and includes event deposits, gift cards, game credits, prepaid membership dues, and initiation fees which are non-refundable (unless the related membership is transferred with various restrictions) and recorded as revenue over the expected seven year life of an active membership. Current deferred revenue is recognized within 12 months of collection. Long-term deferred revenue relates to unrecognized initiation fees and prepaid marketing fees received under a private course agreement. The following table provides a reconciliation of the activity related to long-term deferred revenue for the periods presented:

	Three months ended September 30, 2024	Nine months ended September 30, 2024
Balance as of beginning of period	\$ 17,090	\$ 14,989
Initiation fees received	2,197	7,358
Refunds of initiation fees	(14)	(66)
Revenue recognized	(1,130)	(3,576)
Reclassifications and other	(179)	(741)
Balance at end of period	<u>\$ 17,964</u>	<u>\$ 17,964</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

SEPTEMBER 30, 2024

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

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

	September 30, 2024	December 31, 2023
Operating lease liabilities	\$ 17,464	\$ 11,674
Insurance financing	5,456	2,794
Miscellaneous current liabilities	4,929	1,732
Other current liabilities	<u>\$ 27,849</u>	<u>\$ 16,200</u>

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

In 2002, American Golf Corporation ("AGC"), when it was owned by a previous owner, entered into a Restated Membership Deposit Assumption Agreement, with two trusts established by a previous owner of AGC (the "Trusts") under which the Trusts agreed to unconditionally assume the obligations of AGC to refund certain membership deposit liabilities ("MDLs") in exchange for shares in AGC. The MDLs assumed were refundable 30 years from the date of acceptance of the member with the first liabilities assumed by the Trusts becoming refundable in 2020. The total redemption value of membership deposit liabilities assumed by the Trusts was \$181.9 million. No asset was recorded at the time of our acquisition of AGC in recognition of this assumption agreement for the \$181.9 million of liabilities assumed by the Trusts for the following reasons: 1) the substantial time period between the assumption of the liabilities and the first liabilities becoming refundable; 2) the inability of AGC to verify and monitor the assets of the Trusts to ensure the ability to perform under the terms of the assumption agreements; 3) the fact that the Trusts are not required to maintain any assets that would support such performance; 4) the Trust settlors were not required contractually to fund the Trusts; and 5) the Company does not have the ability to determine the likelihood that the Trusts will meet their obligations. In the event the Trusts are not able to fulfill their obligations, the Company would be responsible for refunding the outstanding balance of the MDL and therefore, recognizes these MDLs on its balance sheet. Though the Trusts initially assumed \$181.9 million of MDLs the balance of related MDLs carried on the books of AGC, as of September 30, 2024, has been reduced to an undiscounted nominal value of \$113.7 million through various assignments to third parties and partial membership refunds due to membership transfers. To-date, the Trust has met all of their obligations that have come due for which the Trust assumed responsibility under the Restated Membership Deposit Assumption Agreement. As of September 30, 2024 the Trusts had refunded a total of approximately \$1.2 million of MDLs, all of which they were obligated to pay under the terms of the assumption agreements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Insurance proceeds	\$ 681	\$ —	\$ 1,730	\$ 1,275
Gain on sale of long-lived assets and intangibles	—	—	—	8
Loss on debt and capital loss extinguishment	(193)	—	(193)	—
Other income (expense)	(263)	192	(1,778)	812
Other income (expense), net	<u>\$ 225</u>	<u>\$ 192</u>	<u>\$ (241)</u>	<u>\$ 2,095</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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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. Initiation fees are non-refundable and recorded as revenue over the expected seven year life of an active membership.

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), and managed golf properties.

	Three Months Ended September 30, 2024					Nine Months Ended September 30, 2024				
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	Total	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	Total
Golf operations	\$ 7,745	\$ 38,560	\$ 15,131	\$ 6,915	\$ 68,351	\$25,320	\$ 99,875	\$ 46,008	\$ 21,506	\$192,709
Sales of food and beverages	10,868	9,425	2,120	—	22,413	35,775	26,061	6,916	—	68,752
Total revenues	\$18,613	\$ 47,985	\$ 17,251	\$ 6,915	\$ 90,764	\$61,095	\$ 125,936	\$ 52,924	\$ 21,506	\$261,461

	Three Months Ended September 30, 2023					Nine Months Ended September 30, 2023				
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	Total	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	Total
Golf operations	\$ 7,748	\$ 36,776	\$ 13,433	\$ 17,406	\$ 75,363	\$24,123	\$ 92,441	\$ 41,805	\$ 48,420	\$206,789
Sales of food and beverages	13,367	9,244	2,362	—	24,973	37,802	24,430	6,893	—	69,125
Total revenues	\$21,115	\$ 46,020	\$ 15,795	\$ 17,406	\$ 100,336	\$61,925	\$ 116,871	\$ 48,698	\$ 48,420	\$275,914

- (A) Includes \$5.9 million and \$17.9 million for the three and nine months ended September 30, 2024, and \$16.1 million and \$43.6 million for the three and nine months ended September 30, 2023, respectively, related to management contract reimbursements reported under ASC 606.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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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 September 30, 2024, 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 ten Puttery venues across eight states and the District of Columbia located in The Colony, Texas; Charlotte, North Carolina; Washington, D.C.; Chicago, Illinois; Pittsburgh, Pennsylvania; Houston, Texas; Kansas City, Missouri; Miami, Florida; New York City, New York; and Minneapolis, Minnesota.

The Company's traditional golf segment is one of the largest operators of golf courses and country clubs in the United States. As of September 30, 2024, the Company owned, leased or managed 43 traditional golf properties across seven states. The corporate segment consists primarily of securities and other investments and executive management.

DRIVE SHACK INC. AND SUBSIDIARIES
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(Dollars in thousands, except share and per share data)

Summary financial data on the Company's segments is given below, together with a reconciliation to the same data for the Company as a whole:

Nine Months Ended September 30, 2024	Entertainment Golf		Traditional Golf		Corporate		Total
Revenues							
Golf operations	\$	25,320	\$	167,389	\$	—	\$ 192,709
Sales of food and beverages		35,775		32,977		—	68,752
Total revenues		61,095		200,366		—	261,461
Operating costs							
Operating expenses		45,115		157,071		—	202,186
Cost of sales - food and beverages		7,966		9,032		—	16,998
General and administrative expense		—		—		12,386	12,386
Depreciation and amortization		14,312		6,421		1,178	21,911
Pre-opening costs ^(A)		1,711		—		—	1,711
Loss on lease terminations and impairment		—		514		—	514
Total operating costs		69,104		173,038		13,564	255,706
Operating (loss) income		(8,009)		27,328		(13,564)	5,755
Other income (expenses)							
Interest and investment income		—		—		27	27
Interest expense ^(B)		(6)		(7,205)		(6,533)	(13,744)
Other income (expenses), net		32		(453)		180	(241)
Total other income (expenses)		26		(7,658)		(6,326)	(13,958)
Income tax expense		—		—		385	385
Net (loss) income		(7,983)		19,670		(20,275)	(8,588)
Less: net loss attributable to NCI		(192)		—		—	(192)
Net (loss) income attributable to the company		(7,791)		19,670		(20,275)	(8,396)
Preferred dividends		—		—		(4,395)	(4,395)
Net (loss) income applicable to common stockholders	\$	(7,791)	\$	19,670	\$	(24,670)	\$ (12,791)

September 30, 2024	Entertainment Golf		Traditional Golf		Corporate		Total
Total assets	\$	201,214	\$	197,014	\$	44,158	\$ 442,386
Total liabilities	\$	182,734	\$	190,565	\$	128,651	\$ 501,950
Preferred stock	\$	—	\$	—	\$	61,583	\$ 61,583
Noncontrolling interest	\$	5,070	\$	—	\$	—	\$ 5,070
Equity (deficit) attributable to common stockholders	\$	13,410	\$	6,449	\$	(146,076)	\$ (126,217)
Additions to property and equipment (including finance leases) during the nine months ended September 30, 2024							
	\$	15,615	\$	4,451	\$	18	\$ 20,084

DRIVE SHACK INC. AND SUBSIDIARIES
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Three Months Ended September 30, 2024	Entertainment Golf		Traditional Golf		Corporate		Total
Revenues							
Golf operations	\$	7,745	\$	60,606	\$	—	\$ 68,351
Sales of food and beverages		10,868		11,545		—	22,413
Total revenues		18,613		72,151		—	90,764
Operating costs							
Operating expenses		15,251		56,053		—	71,304
Cost of sales - food and beverages		2,555		3,311		—	5,866
General and administrative expense		—		—		4,260	4,260
Depreciation and amortization		4,889		2,058		378	7,325
Pre-opening costs ^(A)		211		—		—	211
Loss on lease terminations and impairment		—		387		—	387
Total operating costs		22,906		61,809		4,638	89,353
Operating (loss) income		(4,293)		10,342		(4,638)	1,411
Other income (expenses)							
Interest and investment income		—		—		11	11
Interest expense ^(B)		(1)		(2,413)		(2,295)	(4,709)
Other income (expense), net		39		514		(328)	225
Total other income (expenses)		38		(1,899)		(2,612)	(4,473)
Income tax expense		—		—		159	159
Net (loss) income		(4,255)		8,443		(7,409)	(3,221)
Less: net loss attributable to NCI		(133)		—		—	(133)
Net (loss) income attributable to the company		(4,122)		8,443		(7,409)	(3,088)
Preferred dividends		—		—		(1,465)	(1,465)
Net (loss) income applicable to common stockholders	\$	(4,122)	\$	8,443	\$	(8,874)	\$ (4,553)

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

SEPTEMBER 30, 2024

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

Nine Months Ended September 30, 2023	Entertainment Golf		Traditional Golf		Corporate		Total
Revenues							
Golf operations	\$	24,123	\$	182,666	\$	—	\$ 206,789
Sales of food and beverages		37,802		31,323		—	69,125
Total revenues		61,925		213,989		—	275,914
Operating costs							
Operating expenses		39,751		172,977		778	213,506
Cost of sales - food and beverages		7,933		8,398		—	16,331
General and administrative expense		986		10,718		6,345	18,049
Depreciation and amortization		12,965		7,551		1,482	21,998
Pre-opening costs ^(A)		4,813		5		51	4,869
Loss on lease terminations and impairment		—		70		—	70
Total operating costs		66,448		199,719		8,656	274,823
Operating (loss) income		(4,523)		14,270		(8,656)	1,091
Other income (expenses)							
Interest and investment income		—		36		35	71
Interest expense ^(B)		(122)		(4,490)		(4,216)	(8,828)
Other income, net		—		1,103		992	2,095
Total other (expenses) income		(122)		(3,351)		(3,189)	(6,662)
Income tax expense		—		—		24	24
Net (loss) income		(4,645)		10,919		(11,869)	(5,595)
Less: net loss attributable to NCI		(13)		—		—	(13)
Net (loss) income attributable to the company		(4,632)		10,919		(11,869)	(5,582)
Preferred dividends		—		—		(4,185)	(4,185)
(Loss) income applicable to common stockholders	\$	(4,632)	\$	10,919	\$	(16,054)	\$ (9,767)
September 30, 2023							
Total assets	\$	235,666	\$	213,088	\$	17,364	\$ 466,118
Total liabilities	\$	105,938	\$	285,424	\$	94,108	\$ 485,470
Preferred stock	\$	—	\$	—	\$	61,583	\$ 61,583
Noncontrolling interest	\$	6,618	\$	—	\$	—	\$ 6,618
Equity (deficit) attributable to common stockholders	\$	123,110	\$	(72,336)	\$	(138,327)	\$ (87,553)
Additions to property and equipment (including finance leases) during the nine months ended September 30, 2023							
	\$	33,042	\$	4,556	\$	121	\$ 37,719

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

SEPTEMBER 30, 2024

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

Three Months Ended September 30, 2023	Entertainment Golf		Traditional Golf		Corporate		Total
Revenues							
Golf operations	\$	7,748	\$	67,615	\$	—	\$ 75,363
Sales of food and beverages		13,367		11,606		—	24,973
Total revenues		21,115		79,221		—	100,336
Operating costs							
Operating expenses		14,390		65,024		—	79,414
Cost of sales - food and beverages		2,628		3,085		—	5,713
General and administrative expense		—		3,902		1,589	5,491
Depreciation and amortization		4,783		2,549		1,240	8,572
Pre-opening costs ^(A)		1,936		5		16	1,957
Loss on lease terminations and impairment		—		36		—	36
Total operating costs		23,737		74,601		2,845	101,183
Operating (loss) income		(2,622)		4,620		(2,845)	(847)
Other income (expenses)							
Interest and investment income		—		12		286	298
Interest expense ^(B)		(44)		(1,156)		(1,657)	(2,857)
Other (loss) income, net		—		(36)		228	192
Total other (expenses) income		(44)		(1,180)		(1,143)	(2,367)
Income tax benefit						(80)	(80)
Net (loss) income		(2,666)		3,440		(3,908)	(3,134)
Less: net loss attributable to NCI		(59)		—		—	(59)
Net (loss) income attributable to the company		(2,607)		3,440		(3,908)	(3,075)
Preferred dividends		—		—		(1,395)	(1,395)
Net (loss) income applicable to common stockholders	\$	(2,607)	\$	3,440	\$	(5,303)	\$ (4,470)

- (A) 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.
- (B) Interest expense included the accretion of membership deposit liabilities in the amount of \$2.3 million and \$6.8 million for the three and nine months ended September 30, 2024 and \$1.0 million and \$4.1 million three and nine months ended September 30, 2023, 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:

	September 30, 2024			December 31, 2023		
	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	211,113	(64,473)	146,640	176,087	(54,152)	121,935
Furniture, fixtures and equipment	75,639	(48,466)	27,173	65,709	(38,769)	26,940
Finance leases - equipment	14,711	(7,375)	7,336	24,597	(14,804)	9,793
Construction in progress	6,493	—	6,493	32,242	—	32,242
Total Property and Equipment	\$ 314,726	\$ (120,314)	\$ 194,412	\$ 305,405	\$ (107,725)	\$ 197,680

Note 6. LEASES

The Company's commitments under lease arrangements are primarily leases for entertainment golf venues and traditional golf properties and related facilities, office leases and leases for golf carts and equipment. The majority of lease terms for our entertainment golf venues and traditional golf properties and related facilities initially range from 10 to 20 years and include up to eight 5-year renewal options. In addition to minimum payments, certain leases require payment of the excess of various percentages of gross revenue or net operating income over the minimum rental payments. The leases generally require the payment of taxes assessed against the leased property and the cost of insurance and maintenance. Certain leases include scheduled increases or decreases in minimum rental payments at various times during the term of the lease.

During the three and nine months ended September 30, 2024, no new operating leases were commenced. The renewal option for one lease, which includes five traditional golf properties, was exercised by the lessor extending the lease for five years in August 2024. As a result, operating lease right-of-use assets obtained in exchange for lease liabilities totaled \$21.0 million based on a discount rate of 11.09%.

During the three and nine months ended September 30, 2023, the Company commenced one new operating lease for a Puttery location in Miami, Florida. At commencement, the present value of future payments under the lease totaled \$6.5 million based on a discount rate of 9.45%.

Note 7. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company's intangible assets:

	September 30, 2024			December 31, 2023		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (251)	\$ 449	\$ 700	\$ (233)	\$ 467
Management contracts	20,639	(13,512)	7,127	21,887	(13,778)	8,109
Internally-developed software	3,612	(2,033)	1,579	3,612	(1,557)	2,055
Membership base	785	(225)	560	785	(180)	605
Non-amortizable liquor licenses	1,264	—	1,264	1,264	—	1,264
Total Intangibles	\$ 27,000	\$ (16,021)	\$ 10,979	\$ 28,248	\$ (15,748)	\$ 12,500

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Note 8. DEBT

The following table presents certain information regarding the Company's debt obligations excluding financing leases at September 30, 2024 and December 31, 2023:

Debt Obligation/Collateral	Month Issued	September 30, 2024						December 31, 2023			
		Outstand- ing Face Amount	Carrying Value ^(A)	Final Stated Maturity	Weighted Average Coupon	Weighted Average Funding Cost ^(A)	Weighted Average Life (Years)	Face Amount of Floating Rate Debt	Outstand- ing Face Amount	Carrying Value	
Vineyard II	Dec 1993	\$ 200	\$ 200	Dec 2043	3.45%	3.45 %	19.2	\$ 200	\$ 200	\$ 200	
Junior subordinated notes payable ^(B)	Mar 2006	51,004	51,142	Apr 2035	SOFR+2.2 5%	7.77 %	10.5	51,004	51,004	51,150	
Entertainment Golf Facility	Mar 2023	20,511	19,518	March 2028	3-month SOFR +8.5%	15.67 %	2.1	20,511	26,500	24,811	
Total debt obligations		71,715	70,860						77,704	76,161	
Less current portion of debt		(1,296)	(1,296)						(1,325)	(1,325)	
Debt obligations - noncurrent		\$ 70,419	\$ 69,564						76,379	74,836	

(A) Including the effect of deferred financing costs.

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

Vineyard II

Traditional golf is obligated under a \$0.2 million loan with the City of Escondido, California ("Vineyard II"). The principal amount of the loan is payable in five equal installments upon reaching the "Achievement Date", which is the date on which the number of rounds of golf played on the property during the previous 36-month period equals or exceeds 240,000. As of September 30, 2024, the Achievement Date has not been reached. The interest rate is adjusted annually and is equal to 1% plus a short-term investment return, as defined in the loan agreement. As of September 30, 2024, the interest rate was 3.45%.

Junior subordinated notes payable

The Notes were issued pursuant to the Junior Subordinated Indenture, dated April 30, 2009, between the Company and The Bank of New York Mellon Trust Company, National Association ("BNYM"), as trustee (the "Indenture"). After an initial period expiring in April 2016, the Notes bear interest at a variable rate equal to the SOFR plus 2.25% annually and all principal repayment is due at maturity. At September 30, 2024, the interest rate was 7.77%.

Entertainment Golf Facility

Borrowings under the Entertainment Golf Facility 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. Interest is paid monthly. The Facility amortizes on a quarterly basis at rate of 5% per year beginning in 2024. Loans under the Entertainment Golf 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 Entertainment Golf Facility. As of September 30, 2024, the interest rate is 13.51%.

On September 18, 2024, the Company repaid \$5.0 million of principal on the Entertainment Golf Facility ahead of its contractual maturity date, resulting in a loss from the early extinguishment of debt of \$401 during the three and nine months ended September 30, 2024 which is included Other income (expense), net on the consolidated statement of operations.

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Note 9. REAL ESTATE SECURITIES

As of December 31, 2022, the Company held certain Asset Backed Securities ("ABS") – Non-Agency Residential Mortgage-Backed Securities ("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 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 December 31, 2023, the remaining ABS – Non-Agency RMBS securities had a face amount and fair value of \$0.4 million, all of which was redeemed in January 2024 with no additional gain or loss recognized.

Note 10. FAIR VALUE OF FINANCIAL INSTRUMENTS**Fair Value Measurements**

We measure our financial assets and liabilities at fair value on a recurring basis using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Authoritative guidance establishes three levels of the fair value hierarchy as follows:

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 carrying amounts of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued expenses, and certain other short-term liabilities approximate fair value due to their high liquidity and short-term nature, and are therefore categorized within Level 1 of the fair value hierarchy.

The following table summarizes the carrying values and estimated fair values of the Company's financial instruments at September 30, 2024 and December 31, 2023, including those measured at fair value on a recurring basis within the financial statements and fair value measurements requiring disclosure only:

	September 30, 2024			December 31, 2023		
	Carrying Value	Estimated Fair Value	Fair Value Method ^(A)	Carrying Value	Estimated Fair Value	
Recurring Measurements						
Assets						
Real estate securities, trading	\$ —	\$ —	Pricing models - Level 3	\$ 392	\$ 392	
Disclosure Only						
Liabilities						
Junior subordinated notes payable	\$ 51,142	\$ 35,297	Pricing models - Level 3	\$ 51,150	\$ 33,616	
Entertainment Golf facility	\$ 19,518	\$ 20,511	Pricing models - Level 3	\$ 24,811	\$ 26,500	

(A) Pricing models are used for (i) real estate securities that were not traded in an active market, and, therefore, had 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.

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

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

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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. For the Company's debt obligations, the significant unobservable inputs include interest rates, the amount and timing of expected future cash flows, and market yields and the credit spread of the Company.

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.

Non-recurring Fair Value Measurements

We measure certain property and equipment, operating lease right-of use assets, and non-amortizing intangible assets at fair value on a non-recurring basis if impairment indicators are present. These assets are written down to fair value when they are classified as held for sale or determined to be impaired. During the three and nine months ended September 30, 2024 and 2023, no such measurements were performed and no impairment expense was recognized.

Note 11. EQUITY AND EARNINGS PER SHARE**Earnings per Share**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Numerator for basic and diluted earnings per share:				
Loss applicable to common stockholders	\$ (4,553)	\$ (4,470)	\$ (12,791)	\$ (9,767)
Denominator:				
Denominator for basic earnings per share - weighted average shares	170,993,346	95,787,087	169,614,430	93,523,211
Denominator for diluted earnings per share - adjusted weighted average shares	170,993,346	95,787,087	169,614,430	93,523,211
Basic earnings per share:				
(Loss) income applicable to common stock, per share	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ (0.10)
Diluted earnings per share:				
(Loss) income applicable to common stock, per share	\$ (0.03)	\$ (0.05)	\$ (0.08)	\$ (0.10)

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 potentially dilutive securities are its options, RSUs, and restricted stock. The Company had the following potentially dilutive securities outstanding during the periods noted which were excluded from our calculation of diluted EPS as their effect would have been antidilutive:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2024	2023	2024	2023
Options	266,347	1,645,121	597,453	1,987,409
RSUs	11,878	161,508	1,353,906	161,508
Restricted Stock	28,449,178	—	28,449,178	—
Total potentially dilutive securities	28,727,403	1,806,629	30,400,537	2,148,917

Stock Options

The following is a summary of the changes in the Company’s outstanding options for the nine months ended September 30, 2024:

	Number of Options	Weighted Average Strike Price
Balance at December 31, 2023	765,749	\$ 3.95
Expired	(765,749)	\$ (3.95)
Exercised	—	—
Balance at September 30, 2024	—	\$ —
Exercisable at September 30, 2024	—	\$ —

Stock-based compensation expense is recognized on a straight-line basis through the vesting date of the options. Stock-based compensation expense related to the employee options was \$0 during both the three and nine months ended September 30, 2024, and \$21 and \$62 during the three and nine months ended September 30, 2023, respectively, and is recorded in general and administrative expense on the Consolidated Statements of Operations. There is no unrecognized stock-based compensation expense related to the unvested options as of September 30, 2024.

Restricted Stock Units (RSUs)

The following is a summary of the changes in the Company’s RSUs for the nine months ended September 30, 2024.

	Number of RSUs	Weighted Average Grant Date Fair Value (per unit)
Balance at December 31, 2023	11,878	\$ 4.77
Granted	11,449,178	\$ 0.21
Vested	(11,449,178)	\$ 0.21
Forfeited (A)	—	\$ —
Balance at September 30, 2024	11,878	\$ 4.77

(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 generally grants RSUs to the non-employee directors as part of their annual compensation. The RSUs are subject to a one-year vesting period. 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.

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 outside of the award to Michael Compton discussed below recognized during the three or nine months ended September 30, 2024 or 2023.

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On January 1, 2024, the Company granted 11,449,178 RSUs to Michael Compton as compensation for historical services as interim CEO and advisory work prior thereto beginning in Q1 2023, in lieu of cash compensation. The RSUs vested on February 2, 2024. Expense related to this 2023 service was accrued in 2023 in general and administrative expense on the Consolidated Statement of Operations but was reclassified as additional paid in capital during the three months ended March 31, 2024 during which both the grant and vesting of these awards occurred. Expense related to this award totaled \$2,404.

The was no unrecognized stock-based compensation expense related to the unvested RSUs as of September 30, 2024.

Restricted Stock

On January 1, 2024, the Company granted 19,949,178 shares of restricted common stock, par value \$0.01 per share ("Restricted Shares"), to Wesley Edens and 8,500,000 Restricted Shares to Michael Compton. The terms of the Restricted Shares contain a performance condition requiring that the Company's stock price increase at least 66.00% from the date of grant in order to vest, measured on a total return basis (taking into account any dividend payments). No stock compensation expense has been recognized related to these performance based grants as the achievement of performance condition is not considered probable.

The Restricted Shares are generally subject to performance-based cliff vesting, are not subject to accelerated vesting upon a termination of employment and are not transferable prior to the vesting date. The grants are entitled to voting and dividend rights prior to vesting, subject to clawback in the event the performance condition is not met.

Preferred Stock

Dividends totaling \$1.4 million were paid on January 31, 2023 to holders of record of preferred stock on January 2, 2023, in an amount equal to \$0.609375, \$0.503125 and \$0.523438 per share on the 9.750% Series B, 8.050% Series C and 8.375% Series D preferred stock, respectively. As of September 30, 2024, \$15.4 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

The Series B Preferred, Series C Preferred and Series D Preferred are non-voting, have a \$25 per share liquidation preference, no maturity date and no mandatory redemption. The Company has the option to redeem the Series B Preferred, the Series C Preferred and the Series D Preferred, at their liquidation preference. The terms of the Series C Preferred and Series D Preferred each provide that if they cease to be listed on the NYSE or the AMEX, or quoted on the NASDAQ, and the Company is not subject to the reporting requirements of the Exchange Act, the shares of the Series C Preferred and Series D Preferred shall accrue cumulative distributions at the special rate of 9.05% and 9.375% per year, respectively. The special rate has been in effect since January 2, 2023, which is the effective date the Company's filing on Form 15, effecting deregistration under the Exchange Act and termination of the reporting requirements of the Exchange Act, and delisting from NYSE.

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 certain 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. In 2023, in accordance with options in the original investment agreements, Symphony increased their ownership in two SLPs, those for the Puttery location in The Colony, Texas, and Charlotte, North Carolina, to 20% in exchange for cash equal to an additional 10% of the total cost to build each location.

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., Houston, Texas, Chicago, Illinois, and Pittsburgh, Pennsylvania.

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Tax Benefits Preservation Plan

The Company is party to the Tax Benefits Preservation Plan dated May 22, 2022, as amended on June 4, 2023, and as amended and restated in its entirety on May 3, 2024 (the "Plan"), with American Stock Transfer & Trust Company, LLC, as rights agent (the "Rights Agent"). 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").

Pursuant to the Plan, each registered holder of outstanding shares of common stock, par value \$0.01 per share (the "Common Stock"), received rights 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 \$5.00 per Unit, subject to adjustment (the "Purchase Price").

The Rights are attached to all Common Stock certificates representing shares outstanding, and no separate rights certificates ("Rights Certificates") were distributed. Subject to certain exceptions specified in the Plan, the Rights will separate from the Common Stock then outstanding and a distribution date (the "Distribution Date") will occur upon the earlier of (i) 10 business days following a public announcement that a person or group of affiliated or associated persons (an "Acquiring Person") has become the beneficial owner of 4.9% or more of the shares of the Common Stock (the "Stock Acquisition Date") and (ii) 10 business days (or such later date as the Board shall determine) following the commencement of a tender offer or exchange offer that would result in a person or group becoming an Acquiring Person.

Note 12. COMMITMENTS AND CONTINGENCIES

Litigation - The Company is and may become, from time to time, involved in legal actions in the ordinary course of business, including governmental and administrative investigations, inquiries and proceedings concerning employment, labor, environmental, personal injury and other claims. Although management is unable to predict with certainty the eventual outcome of any legal action, management believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at September 30, 2024, will not materially affect the Company's consolidated results of operations, financial position or cash flow. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

Environmental Costs — As a commercial real estate owner, the Company is subject to potential environmental costs. At September 30, 2024, management of the Company is not aware of any environmental concerns that would have a material adverse effect on the Company's consolidated financial position or results of operations.

Surety Bonds — The Company is required to maintain bonds under certain third-party agreements, as requested by certain utility providers, and under the rules and regulations of licensing authorities and other governmental agencies. The Company had bonds outstanding of approximately \$0.3 million as of September 30, 2024 and December 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 operating expenses.

Membership Deposit Liability — In the traditional golf business, until 2021 private country club members generally paid an advance initiation deposit upon their acceptance as a member to the respective country club. Initiation deposits are refundable 30 years after the date of acceptance as a member. As of September 30, 2024, the total nominal value of initiation fee deposits was approximately \$267.5 million with annual maturities through 2051.

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In 2002 American Golf Corporation ("AGC"), when it was owned by a previous owner, entered into a Restated Membership Deposit Assumption Agreement, with two trusts established by a previous owner of AGC (the "Trusts") under which the Trusts agreed to unconditionally assume the obligations of AGC to refund certain membership deposit liabilities ("MDLs") in exchange for shares in AGC. The MDLs assumed were refundable 30 years from the date of acceptance of the member with the first liabilities assumed by the Trusts becoming refundable in 2020. The total redemption value of membership deposit liabilities assumed by the Trusts was \$181.9 million. No asset was recorded at the time of our acquisition of AGC in recognition of this assumption agreement for the \$181.9 million of liabilities assumed by the Trusts for the following reasons: 1) the substantial time period between the assumption of the liabilities and the first liabilities becoming refundable; 2) the inability of AGC to verify and monitor the assets of the Trusts to ensure the ability to perform under the terms of the assumption agreements; 3) the fact that the Trusts are not required to maintain any assets that would support such performance; 4) the Trust settlors were not required contractually to fund the Trusts; and 5) The Company does not have the ability to determine the likelihood that the Trusts will meet their obligations. In the event the Trusts are not able to fulfill their obligations, the Company would be responsible for refunding the outstanding balance of the MDL and therefore, recognizes these MDLs on its balance sheet. Though the Trusts initially assumed \$181.9 million of MDLs the balance of related MDLs carried on the books of AGC, as of September 30, 2024, has been reduced to an undiscounted nominal value of \$113.9 million through various assignments to third parties and partial membership refunds due to membership transfers. To-date, the Trust has met all of their obligations that have come due for which the Trust assumed responsibility under the Restated Membership Deposit Assumption Agreement. As of September 30, 2024 the Trusts had refunded a total of approximately \$1.2 million of MDLs under the terms of the assumption agreements.

Commitments - As of September 30, 2024, the Company is committed to a concession agreement in Manhattan (Randall's Island), New York for a Drive Shack entertainment golf venue that is not yet commenced. The minimum rent due under this concession agreement totals \$17.5 million over a term of 18 years when construction feasibility is met. As of October 7, 2024, this concession agreement was assumed by a third party (see Note 15).

Preferred Dividends in Arrears - As of September 30, 2024, \$15.4 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

Note 13. 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 \$0.2 million and \$0.4 million for the three and nine months ended September 30, 2024, respectively and (\$0.1) million and \$0.0 million for the three and nine months ended September 30, 2023, 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 maintains a full valuation allowance against its deferred tax assets as of September 30, 2024 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. Generally, the Company is no longer subject to tax examinations by tax authorities for years prior to 2019.

At September 30, 2024 and December 31, 2023, the Company reported a total liability for unrecognized tax benefits of \$0.3 million and \$0.2 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 14. LOSS ON LEASE TERMINATIONS AND IMPAIRMENT

During the three and nine months ended September 30, 2024 and 2023, the Company recorded no impairment charges.

During the three and nine months ended September 30, 2024, the Company recorded \$387 and \$514, respectively, of charges related to the disposal of leased assets upon the termination of the related leases. During the three and nine months ended September 30, 2023, the Company recorded \$36 and \$70, respectively, of similar charges.

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Note 15. SUBSEQUENT EVENTS

The Company evaluated subsequent events, if any, that would require an adjustment to the Company's consolidated financial statements or require disclosure in the notes to the consolidated financial statements through the date of issuance of the consolidated financial statements.

Pursuant to an Assignment and Assumption of License dated October 17, 2024, Drive Shack Randall's Island LLC assigned to a third party assignee all of its rights, obligations and other interests under the License Agreement dated September 28, 2018, between the City of New York acting by and through the Department of Parks and Recreation, the Randall's Island Park Alliance, Inc. and Drive Shack Randall's Island LLC. The third party assignee succeeded to all rights, obligations and other interests of Drive Shack Randall's Island LLC with the consent of the City of New York acting by and through the Department of Parks and Recreation as required by the License being provided on October 17, 2024. As a result of the assignment, neither the Company, nor any of its subsidiaries, has any continuing obligations under the License.

On October 16, 2024, the Company extended an offer to purchase all the outstanding shares of each series of Preferred Stock for \$5.00 per share, subject to certain conditions including the adoption of an amendment to the Company's Restated Articles of Incorporation (the "Charter Amendment") that would authorize the Company to consummate the October 16 offer and any other offer to purchase outstanding shares of Preferred Stock either (i) pursuant to exchange or repurchase offers made on the same terms to all holders of each series of Preferred Stock or (ii) through open market repurchases at then-current trading prices. As of the date of this Quarterly Report, holders of Preferred Stock have not provided proxies representing a number of votes sufficient to adopt the Charter Amendment at a Special Meeting of the Company scheduled for November 25, 2024. Due to the failure of this offer condition, the Company expects that the October 16 tender offer, and any subsequent open market repurchase currently contemplated by the Company, will not be launched, consummated or otherwise effectuated. The Company does not intend to pay accrued and unpaid dividends on its Preferred Stock unless and until the Charter Amendment or a similar amendment is adopted, subject to applicable requirements of law and the Company's organizational documents.

On November 12, 2024, the Company repaid all remaining principal, \$20.5 million, on the Entertainment Golf Facility ahead of its contractual maturity date, including a prepayment premium of \$0.2 million at a negotiated discount from the contractually obligated \$0.6 million premium that was otherwise required under the loan agreement.

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

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

GENERAL

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

The Company conducts its business through two primary operating segments:

Entertainment Golf Business | Drive Shack and Puttery

Drive Shack offers competitive, social entertainment through its golf-related leisure and large-format entertainment venues with gaming and premier golf technology, a chef-inspired menu, craft cocktails, and engaging social events throughout the year. Each Drive Shack venue features expansive, climate-controlled, suite style bays with lounge seating; augmented-reality golf games and virtual course play; a restaurant and multiple bars; an outdoor patio with lawn games; and arcade games.

As of September 30, 2024, the Company operated four Drive Shack venues located in Orlando, Florida; West Palm Beach, Florida; Raleigh, North Carolina; and Richmond, Virginia. Drive Shack venues are freestanding, 50,000 - 60,000 square feet, open-air venues built on approximately 12 acres.

This segment also includes the Company's indoor entertainment golf brand, Puttery, an adult-focused, modern spin on putting, re-defining the game within an immersive experience as guests move from one course to the next. With a high-energy atmosphere that combines plentiful curated culinary offerings and inventive craft cocktails centered around a lively bar area with great music, guests can relax and enjoy their evening before, during and after their tee time. Puttery venues range in size from 15,000 to 20,000 square feet and feature indoor putting courses anchored by bars and other social spaces that serve to create engaging and fun experiences for guests.

The Company launched its first Puttery venue in September 2021 in The Colony, Texas. As of June 30, 2024, the Company operated ten leased Puttery venues located in The Colony, Texas, Charlotte, North Carolina, Washington, D.C., Houston, Texas, Kansas City, Missouri, Minneapolis, Minnesota, Pittsburgh, Pennsylvania, Miami, Florida, New York City, New York, and Chicago, Illinois. The Company opened the Puttery venue in Miami, Florida in January 2024 and New York City, New York in March 2024. Puttery venues are indoor venues typically located in urban and suburban dining and entertainment districts.

Traditional Golf Business

American Golf, acquired by the Company in December 2013, is one of the largest operators of golf properties in the United States. As an owner, lessee, and manager of golf courses and country clubs for over 45 years, we believe American Golf is one of the most experienced operators in the traditional golf industry. As of September 30, 2024, we owned, leased or managed 43 properties across seven states. Effective June 30, 2024, we exited one management agreement related to a public managed course. Earlier in 2024, effective January 15, 2024, the Company did not renew the leases for three public courses at the time of their expiration, and on January 1, 2024, we exited nine management agreements related to private managed courses at the time of their expiration.

American Golf is focused on delivering lasting experiences for our guests, with over 27,000 members and over 1.9 million rounds played at our properties during the twelve months ended December 31, 2023.

RESULTS OF OPERATIONS

The following tables summarize our results of operations for the three and nine months ended September 30, 2024 and 2023:

<i>(dollar amounts in thousands)</i>	Three Months Ended September 30,		Increase (Decrease)	
	2024	2023	Amount	%
Revenues				
Golf operations (A)	\$ 68,351	\$ 75,363	\$ (7,012)	(9.3)%
Sales of food and beverages	22,413	24,973	(2,560)	(10.3)%
Total revenues	90,764	100,336	(9,572)	(9.5)%
Operating costs				
Operating expenses (A)	71,304	79,414	(8,110)	(10.2)%
Cost of sales - food and beverages	5,866	5,713	153	2.7 %
General and administrative expense	4,260	5,491	(1,231)	(22.4)%
Depreciation and amortization	7,325	8,572	(1,247)	(14.5)%
Pre-opening costs	211	1,957	(1,746)	(89.2)
Loss on lease terminations and impairment	387	36	351	975.0 %
Total operating costs	89,353	101,183	(11,830)	(11.7)%
Operating income (loss)	1,411	(847)	(2,258)	(266.6)%
Other income (expenses)				
Interest and investment income	11	298	(287)	(96.3)%
Interest expense	(4,709)	(2,857)	1,852	64.8 %
Other income, net	225	192	33	(17.2)%
Total other (expenses) income	(4,473)	(2,367)	(2,106)	(89.0)%
Loss before income tax	\$ (3,062)	\$ (3,214)	\$ (152)	(4.7)%
Revenues				
<i>(dollar amounts in thousands)</i>				
	Nine Months Ended September 30,		Increase (Decrease)	
	2024	2023	Amount	%
Revenues				
Golf operations (A)	\$ 192,709	\$ 206,789	\$ (14,080)	(6.8)%
Sales of food and beverages	68,752	69,125	(373)	(0.5)%
Total revenues	261,461	275,914	(14,453)	(5.2)%
Operating costs				
			0	
Operating expenses (A)	202,186	213,506	(11,320)	(5.3)%
Cost of sales - food and beverages	16,998	16,331	667	4.1 %
General and administrative expense	12,386	18,049	(5,663)	(31.4)%
Depreciation and amortization	21,911	21,998	(87)	(0.4)%
Pre-opening costs	1,711	4,869	(3,158)	(64.9)%
Loss on lease terminations and impairment	514	70	444	634.3 %
Total operating costs	255,706	274,823	(19,117)	(7.0)%
Operating income	5,755	1,091	(4,664)	427.5 %
Other income (expenses)				
Interest and investment income	27	71	(44)	(62.0)%
Interest expense, net	(13,744)	(8,828)	4,916	55.7 %
Other (expense) income, net	(241)	2,095	(2,336)	111.5 %
Total other (expenses) income	(13,958)	(6,662)	(7,296)	(109.5)%
Loss before income tax	\$ (8,203)	\$ (5,571)	\$ 2,632	47.2 %

(A) Includes \$5.9 million and \$17.9 million for the three and nine months ended September 30, 2024, and \$16.1 million and \$43.6 million for the three and nine months ended September 30, 2023, 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.

<i>(dollar amounts in thousands)</i>	Three Months Ended		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
Golf operations	\$ 68,351	\$ 75,363	\$ (7,012)	(9.3) %
Percentage of total revenue	75.3 %	75.1 %		

During the third quarter of 2023, Puttery added two new venues in Minneapolis, MN, and Kansas City, MO. During the first quarter of 2024, Puttery added two new venues in Miami, FL and New York, NY. The ramp up in revenues of these four new venues and the decrease in same store revenues caused a net \$0 increase in revenues with respect to the comparable prior period. Puttery saw golf operations revenue of \$4.5 million vs. \$3.0 million during the prior period, an increase of \$1.5 million. Drive Shack revenue from golf operations decreased to \$3.2 million in the current period vs. \$4.7 million in the prior comparable period.

Revenues from golf operations for Traditional Golf decreased a total of \$7.0 million compared to the prior period primarily from the loss of revenue from managed courses and the loss of revenue from three leased courses whose leases were not renewed in 2024. Disposed managed courses caused a \$10.2 million reduction in revenue vs the prior comparable period, and disposed leased courses caused a \$2.6 million reduction in revenue. However, Traditional Golf same store revenue increased by \$5.8 million compared to the prior period primarily due to an increase in greens fees and cart fees driven by an increase in average daily golf play rates.

<i>(dollar amounts in thousands)</i>	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
Golf operations	\$ 192,709	\$ 206,789	\$ (14,080)	(6.8) %
Percentage of total revenue	73.7 %	74.9 %		

During the third quarter of 2023, Puttery added two new venues in Minneapolis, MN, and Kansas City, MO. During the first quarter of 2024, Puttery added two new venues in Miami, FL and New York, NY. The ramp up in revenues of these four new venues caused an increase in golf play revenues of \$1.2M with respect to the comparable prior period. Puttery saw a total revenue increase of \$3.0 million, from \$11.6 million to \$14.6 million. Drive Shack revenue from golf operations decreased \$1.8 from \$13.8 million in the prior period vs. \$12.0 million during the current period caused by a decrease in total guests.

Revenues from Golf Operations for Traditional Golf decreased a total of \$15.2 million compared to the prior period primarily from the loss of revenue from managed courses of \$25.7 million and three leased courses whose contracts were not renewed which accounted for \$5.6 million of the decrease. However, traditional Golf same store revenue increased by \$16.1 million compared to the prior period primarily due to an increase in greens fees and cart fees driven by an increase in average daily golf play rates.

Sales of Food and Beverages

	Three Months Ended		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Sales of food and beverages	\$ 22,413	\$ 24,973	\$ (2,560)	(10.3)%
Percentage of total revenue	24.7 %	24.9 %		

Sales of food and beverages decreased by \$2.6 million. \$1.4 million of the decline was driven by the disposal of managed and leased courses in Traditional Golf. The remaining \$1.2 million shortfall was driven by a \$2.2 million decline in same store Entertainment Golf venues which was partially offset by \$1.1 million in additional food and beverage sales from new Puttery venues.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Sales of food and beverages	\$ 68,752	\$ 69,125	\$ (373)	(0.5)%
Percentage of total revenue	26.3 %	25.1 %		

Sales of food and beverages decreased by a total of \$0.4 million, due to a \$0.6 million decrease in Entertainment Golf, and a \$0.2 million increase in Traditional Golf. The decrease in Entertainment Golf was primarily due to a \$6.6 million decline in same store venues which was offset by an additional \$6.0 million in food sales from the new Puttery venues. Traditional Golf sales of food and beverage increased primarily due to an increase in large group events and in food and beverage pricing.

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)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Operating expenses	\$ 71,304	\$ 79,414	\$ (8,110)	(10.2)%
Percentage of total revenue	78.6 %	79.1 %		

Operating expenses decreased by a total of \$8.1 million during the period, primarily due to a \$1.6 million increase in Entertainment Golf due to the addition of four Puttery locations, and a net \$9.7 million decrease in Traditional Golf due to operational efficiencies and the disposal of 9 managed and 3 leased courses.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Operating expenses	\$ 202,186	\$ 213,506	\$ (11,320)	(5.3)%
Percentage of total revenue	77.3 %	77.4 %		

Operating expenses decreased by \$11.3 million, primarily due to a \$1.7 million increase in Entertainment Golf due to the addition of four Puttery locations, and a net \$13 million decrease in Traditional Golf primarily due to operational efficiencies and the disposal of nine managed and three leased courses.

Cost of Sales - Food and Beverages

	Three Months Ended		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Cost of sales - food and beverages	\$ 5,866	\$ 5,713	\$ 153	2.7 %
Percentage of total revenue	6.5 %	5.7 %		

Cost of sales - food and beverages increased by a total of \$0.2 million across both business segments. This increase was mainly driven by lower price points on Food and Beverage sales given the softer than anticipated retail and corporate demand at the Entertainment Golf venues for the quarter.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Cost of sales - food and beverages	\$ 16,998	\$ 16,331	\$ 667	4.1 %
Percentage of total revenue	6.5 %	5.9 %		

Cost of sales - food and beverages increased by a total of \$0.6 million across both business segments. This increase was caused by an increase of \$0.5 million in Traditional Golf and \$0.1 million in Entertainment Golf given the compression of soft corporate events demand and inflationary pressures on goods.

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)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
General and administrative expense	\$ 4,260	\$ 5,491	\$ (1,231)	(22.4)%
Percentage of total revenue	4.7 %	5.5 %		

General and administrative expenses decreased by a net \$1.2 million driven primarily by reductions in corporate headcount, professional fees, and general cost reduction related to corporate expenses across both business segments.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
General and administrative expense	\$ 12,386	\$ 18,049	\$ (5,663)	(31.4)%
Percentage of total revenue	4.7 %	6.5 %		

Total General and administrative expense decreased by \$5.6 million during the nine months ended September 30, 2024, across the two business segments primarily due to reductions in corporate headcount, and professional fees.

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)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Depreciation and amortization	\$ 7,325	\$ 8,572	\$ (1,247)	(14.5)%
Percentage of total revenue	8.1 %	8.5 %		

Depreciation and amortization decreased by a net amount of \$1.2 million.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Depreciation and amortization	\$ 21,911	\$ 21,998	\$ (87)	(0.4)%
Percentage of total revenue	8.4 %	8.0 %		

Depreciation and amortization decreased by \$0.1 million during the nine months ended on September 30, 2024.

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)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Pre-opening costs	\$ 211	\$ 1,957	\$ (1,746)	(89.2)%
Percentage of total revenue	0.2 %	2.0 %		

Pre-opening expenses reduced by \$1.7 million compared to the same period last year because the company had no new venues under development during the period while during the prior period the company invested \$2.0 million in preopening expenses of Puttery venues in Kansas City, Missouri, Pittsburgh, Pennsylvania, and Minneapolis, Minnesota during the first six months of 2023.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Pre-opening costs	\$ 1,711	\$ 4,869	\$ (3,158)	(64.9)%
Percentage of total revenue	0.7 %	1.8 %		

Pre-opening expenses for the nine months ended September 30, 2024, include expenses for the Puttery locations in Miami, Florida and New York, New York. Total preopening expenses reduced by \$3.2 million when compared to the prior period because the company invested \$4.8 million in Kansas City, Missouri, Pittsburgh, Pennsylvania, and Minneapolis, Minnesota during the first nine months of 2023. These three venues opened between February 2023 and 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)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Loss on lease terminations and impairment	\$ 387	\$ 36	\$ 351	975.0 %
Percentage of total revenue	0.4 %	— %		

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Loss on lease terminations and impairment	\$ 514	\$ 70	\$ 444	634.3 %
Percentage of total revenue	0.2 %	— %		

All charges in both periods presented relate to the disposal of leased assets upon the termination of the related leases.

Interest and Investment Income

Interest and investment income consists primarily of interest earned on cash balances and a real estate security. This security was sold or redeemed in its entirety by January 31, 2024.

	Three Months Ended		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest and investment income	\$ 11	\$ 298	\$ (287)	(96.3)%
Percentage of total revenue	— %	0.3 %		

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest and investment income	\$ 27	\$ 71	\$ (44)	(62.0)%
Percentage of total revenue	— %	— %		

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)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest expense	\$ (4,709)	\$ (2,857)	\$ 1,852	64.8 %
Percentage of total revenue	(5.2)%	(2.8)%		

Interest expense increased by \$1.8 million during the period, primarily because of insurance financing \$0.1 million, MGG loan interest \$0.5 million, and MDLs net interest accretion \$1.2 million.

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest expense	\$ (13,744)	\$ (8,828)	\$ 4,916	55.7 %
Percentage of total revenue	(5.3)%	(3.2)%		

Interest expense, net increased by 4.9 million, primarily due to MGG loan \$1.7 million, MDL interest accretion \$2.6 million, insurance funding \$0.2 million, and interest increase on the Subordinated facility interest rate \$0.3 million. Variations in interest rate are due to the indexed portion of the interest rate, specifically SOFR for the Subordinated and MGG credit facilities.

Other Income (Expenses), Net

	Three Months Ended		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Other income, net	\$ 225	\$ 192	\$ 33	(17.2)%
Percentage of total revenue	0.2 %	0.2 %		

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

	Nine Months Ended September 30,		Increase (Decrease)	
	September 30, 2024	September 30, 2023	Amount	%
<i>(dollar amounts in thousands)</i>				
Other income, net	\$ (241)	\$ 2,095	\$ (2,336)	111.5 %
Percentage of total revenue	(0.1)%	0.8 %		

Other income (loss), net decreased by \$2.3 million primarily due to a \$2.5 million non-recurring expense related to revaluing the deferred initiation fees at one of the private golf courses.

SEGMENT RESULTS

Entertainment Golf

<i>(in thousands)</i>	Three Months Ended		Increase (Decrease)
	September 30, 2024	September 30, 2023	Amount
Revenues			
Golf operations	\$ 7,745	\$ 7,748	\$ (3)
Sales of food and beverages	10,868	13,367	(2,499)
Total revenues	18,613	21,115	(2,502)
Total operating costs	22,906	23,737	(831)
Operating loss	\$ (4,293)	\$ (2,622)	\$ 1,671

Total revenues

The decrease in total entertainment golf revenues during the three months ended September 30, 2024, was due to a total decrease in same store revenues of \$4.6 million. The addition of four Puttery venues in Minneapolis, Minnesota, New York, New York, Miami, Florida and Kansas City, Missouri added \$2.1 million in revenues when compared to the prior period.

Operating loss

The increase in operating loss during the three months ended September 30, 2024 was mainly due to higher operating costs from the opening of four new Puttery venues which generated lower than average revenue as they are still in the ramp-up phase, and the reduction of same store revenues.

<i>(in thousands)</i>	Nine Months Ended		Increase (Decrease)
	September 30, 2024	September 30, 2023	Amount
Revenues			
Golf operations	\$ 25,320	\$ 24,123	\$ 1,197
Sales of food and beverages	35,775	37,802	(2,027)
Total revenues	61,095	61,925	(830)
Total operating costs	69,104	66,448	2,656
Operating loss	\$ (8,009)	\$ (4,523)	\$ 3,486

Total revenues

The decrease in total entertainment golf revenues during the nine months ended September 30, 2024, was due to the decrease in same store revenues of \$11.8 million. However, the addition of four Puttery venues in Minneapolis, Minnesota, New York, New York, Miami, Florida and Kansas City, Missouri increased revenues by \$11 million when compared to the prior period.

Operating loss

The increase in operating loss during the three months ended September 30, 2024, was mainly due to higher operating costs from the opening of four new Puttery venues which generated lower than average revenue as they were still in the ramp-up phase, and the reduction of same store revenues.

Traditional Golf

<i>(in thousands)</i>	Three Months Ended		Increase (Decrease)
	September 30, 2024	September 30, 2023	Amount
Revenues			
Golf operations	\$ 60,606	\$ 67,615	\$ (7,009)
Sales of food and beverages	11,545	11,606	(61)
Total revenues	72,151	79,221	(7,070)
Total operating costs	61,809	74,601	(12,792)
Operating income (loss)	\$ 10,342	\$ 4,620	\$ 5,722

Total revenues

The decrease in total traditional golf revenues during the three months ended September 30, 2024, was primarily due to the disposal of 3 leased courses and 9 managed courses. However, same store revenue increased by \$6.1 million driven by increase in green fees driven and ADR, and increased sales of food and beverages driven by an increase in large group events.

Operating income

The increase in operating income of \$5.7 million when compared to the prior period was caused by the decrease in operating costs due to the disposal of 9 managed and 3 leased courses, and segment reduction in overhead expenses, fees, and corporate headcount.

<i>(in thousands)</i>	Nine Months Ended		Increase (Decrease)
	September 30, 2024	September 30, 2023	Amount
Revenues			
Golf operations	\$ 167,389	\$ 182,666	\$ (15,277)
Sales of food and beverages	32,977	31,323	1,654
Total revenues	200,366	213,989	(13,623)
Total operating costs	173,038	199,719	(26,681)
Operating income (loss)	\$ 27,328	\$ 14,270	\$ 13,058

Total revenues

The decrease in total traditional golf revenues during the nine months ended September 30, 2024 was primarily due to the disposal of 3 leased courses and 9 managed courses. Same store revenue increased by \$18.7 million during the period driven by increase in green fees driven and 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 nine months ended September 30, 2024 was primarily due to the general reduction of same store operational expenses of \$13.3 million, while our same store revenue increased \$18.7 million, notwithstanding the revenue lost due to the disposal of 3 leased and 9 managed courses.

Corporate

<i>(in thousands)</i>	Three Months Ended		Increase (Decrease)
	September 30, 2024	September 30, 2023	Amount
Revenues			
Golf operations	\$ —	\$ —	\$ —
Total revenues	—	—	—
Total operating costs	4,638	2,845	1,793
Operating loss	\$ (4,638)	\$ (2,845)	\$ (1,793)

Operating loss

Corporate expenses for the three months ending September 30, 2023 does not include additional corporate expenses that was captured in Traditional Golf as General and administrative expenses of \$3.9 million due to corporate realignment. Including this figure, overall corporate overhead expenses declined by \$2.1 million.

<i>(in thousands)</i>	Nine Months Ended		Increase (Decrease)
	September 30, 2024	September 30, 2023	Amount
Revenues			
Golf operations	\$ —	\$ —	\$ —
Total revenues	—	—	—
Total operating costs	13,564	8,656	4,908
Operating loss	\$ (13,564)	\$ (8,656)	\$ (4,908)

Operating loss

Corporate expenses for the nine months ending September 30, 2023 increased due to realignment in the company's organizational structure. Total company General and administrative expenses declined against the prior year by \$6.8 million. The savings were mainly driven by reduction in headcount and professional fees related to legal and accounting fees.

LIQUIDITY AND CAPITAL RESOURCES

Overview

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

As of September 30, 2024, we had \$22.0 million of available cash.

Our primary cash needs are 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.

Summary of Cash Flows

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

	Nine Months Ended September 30,	
	2024	2023
Net cash (used in) provided by:		
Operating activities	\$ 39,940	\$ 10,969
Investing activities	(17,962)	(36,436)
Financing activities	(10,953)	25,954
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	\$ 11,025	\$ 487

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 \$40.0 million for the nine months ended September 30, 2024, and \$11.0 million for the nine months ended September 30, 2023.

The increase in cash flow from operating activities of \$29.0 million was due to increases in same store revenues in our Traditional Golf segment, and company-wide decrease in costs and expenses.

Investing Activities

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

Net cash used in investing activities was \$17.9 million during the nine months ended September 30, 2024 and \$36.4 million during the nine months ended September 30, 2023. The decrease in the amount of cash used was a result of three Putteries built in 2023 while only two Putteries opened in 2024, the investment for which was initiated in 2023.

Our capital expenditures for the nine months ended September 30, 2024 were \$14.7 million for development of Puttery venues for Entertainment Golf. Capital expenditures for Traditional Golf was \$3.1 million used for ongoing maintenance at the golf courses.

We expect our capital expenditures over the next 12 months to range between \$3.0 million to \$5.0 million for Entertainment Golf which includes finishing the development of the Puttery courses in three of the Drive Shack locations as well as maintaining all our venues.

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 used cash of \$10.9 million during the nine months ended September 30, 2024 due to the partial repayment of MGG private debt facility, repayment of capital leases, and repayment of insurance funding.

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, 2023

CONTRACTUAL OBLIGATIONS

During the nine months ended September 30, 2024, we had all of the material contractual obligations referred to in our Annual Report for the year ended December 31, 2023.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles, or GAAP. The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses. Our estimates are based on information available to management at the time of preparation of the Consolidated Financial Statements, including the result of historical analysis, our understanding and experience of the Company's operations, our knowledge of the industry and market-participant data available to us.

Actual results have historically been in line with management's estimates and judgments used in applying each of the accounting policies described below, and management periodically re-evaluates accounting estimates and assumptions. Actual results could differ from these estimates and materially impact our Consolidated Financial Statements. However, the Company does not expect our assessments and assumptions below to materially change in the future.

Recent Accounting Pronouncements

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

ITEM 5. Legal Proceedings

We are and may become involved in legal proceedings, including but not limited to regulatory investigations and inquiries, in the ordinary course of our business. Although we are unable to predict with certainty the eventual outcome of any litigation, regulatory investigation or inquiry, in the opinion of management, we do not expect our current or threatened legal proceedings to have a material adverse effect on our business, financial position or results of operations. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our business, financial position or results of operations.

ITEM 6. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 7. OTHER INFORMATION*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, 2023.

ITEM 9. ISSUER'S CERTIFICATIONS

I, Michael Compton, certify that:

1. I have reviewed this quarterly disclosure statement of Drive Shack Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

DRIVE SHACK INC.

/s/ Michael Compton

Interim Chief Executive

November 21, 2024

I, Anthony Hsu, certify that:

1. I have reviewed this quarterly disclosure statement of Drive Shack Inc.;
2. Based on my knowledge, this disclosure statement does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this disclosure statement; and
3. Based on my knowledge, the financial statements, and other financial information included or incorporated by reference in this disclosure statement, fairly present in all material respects the financial condition, results of operations and cash flows of the issuer as of, and for, the periods presented in this disclosure statement.

DRIVE SHACK INC.

/s/ Anthony Hsu

Interim Chief Financial

November 21, 2024