

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended March 31, 2021
or

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

For the transition period from _____ to _____

Commission File Number: 001-31458

Drive Shack Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	81-0559116 (I.R.S. Employer Identification No.)
10670 N. Central Expressway, Suite 700, Dallas, TX (Address of principal executive offices)	75231 (Zip Code)
(646) 585-5591 (Registrant's telephone number, including area code)	
(Former name, former address and former fiscal year, if changed since last report)	

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date.

Common stock, \$0.01 par value per share: 92,070,177 shares outstanding as of May 1, 2021.

CAUTIONARY NOTE REGARDING FORWARD LOOKING STATEMENTS

This report contains certain “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements relate to, among other things, (i) the timing and conditions under which we may reopen any of our entertainment golf venues, (ii) the operation of our entertainment golf venues and traditional golf courses in light of the ongoing COVID-19 pandemic following their reopening and the opening of new venues, (iii) our ability to remain competitive within the leisure and entertainment industry during the ongoing COVID-19 pandemic, (iv) the adequacy of our cash flows from operations and available cash to meet our liquidity needs, including in the event of a prolonged reclosure of our venues, (v) our ability to modify the timing of certain contractual payments owed, (vi) our ability to obtain additional financing and (vii) the potential impact of COVID-19 on our results of operations. Forward-looking statements are generally identifiable by use of forward-looking terminology such as “may,” “will,” “should,” “potential,” “intend,” “expect,” “endeavor,” “seek,” “anticipate,” “estimate,” “overestimate,” “underestimate,” “believe,” “could,” “project,” “forecast,” “predict,” “continue” or other similar words or expressions. Forward-looking statements are based on certain assumptions, discuss future expectations, describe future plans and strategies, contain projections of results of operations or of financial condition or state other forward-looking information. Our ability to predict results or the actual outcome of future plans or strategies is inherently uncertain. Although we believe that the expectations reflected in such forward-looking statements are based on reasonable assumptions, our actual results and performance could differ materially from those set forth in the forward-looking statements. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results in future periods to differ materially from forecasted results. Factors which could have a material adverse effect on our operations and future prospects include, but are not limited to:

- our ability to fully reopen and/or avoid future closures of our venues;
- factors impacting attendance, such as local conditions, contagious diseases, including COVID-19, and the availability of an effective vaccine, or the perceived threat of contagious diseases, disturbances, natural disasters, and terrorist activities;
- regulations and guidance of federal, state and local governments and health officials regarding the response to the ongoing COVID-19 pandemic, including with respect to business operations, safety protocols and public gatherings;
- our financial liquidity and ability to access capital;
- the ability to retain and attract members and guests to our properties;
- changes in global, national and local economic conditions, including, but not limited to, increases in unemployment levels, changes in consumer spending patterns, a prolonged economic slowdown and a downturn in the real estate market, particularly due to the COVID-19 pandemic;
- effects of unusual weather patterns and extreme weather events, geographical concentrations with respect to our operations and seasonality of our business;
- competition within the industries in which we operate or may pursue additional investments, including competition for sites for our Entertainment Golf venues;
- material increases in our expenses, including, but not limited to, unanticipated labor issues, rent or costs with respect to our workforce, and costs of goods, utilities and supplies;
- our inability to sell or exit certain properties, and unforeseen changes to our ability to develop, redevelop or renovate certain properties;
- our ability to further invest in our business and implement our strategies;
- difficulty monetizing our real estate debt investments;
- liabilities with respect to inadequate insurance coverage, accidents or injuries on our properties, adverse litigation judgments or settlements, or membership deposits;
- changes to and failure to comply with relevant regulations and legislation, including in order to maintain certain licenses and permits, and environmental regulations in connection with our operations;
- inability to execute on our growth and development strategy by successfully developing, opening and operating new venues;
- impacts of any failures of our information technology and cybersecurity systems;
- the impact of any current or further legal proceedings and regulatory investigations and inquiries; and
- other risks detailed from time to time, particularly under the heading “Risk Factors” in this report, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020, and in our subsequent filings with the Securities and Exchange Commission (the “SEC”).

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. The factors noted above could cause our actual results to differ significantly from those contained in any forward-looking statement.

Readers are cautioned not to place undue reliance on any of these forward-looking statements, which reflect our management’s views only as of the date of this report. We are under no duty to update any of the forward-looking statements after the date of this report to conform these statements to actual results.

SPECIAL NOTE REGARDING EXHIBITS

In reviewing the agreements included as exhibits to this Quarterly Report on Form 10-Q, please remember they are included to provide you with information regarding their terms and are not intended to provide any other factual or disclosure information about Drive Shack Inc. (the “Company” or the “Registrant”) or the other parties to the agreements. The agreements contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties have been made solely for the benefit of the other parties to the applicable agreement and:

- should not in all instances be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate;
- have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to you or other investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time. Additional information about the Company may be found elsewhere in this Quarterly Report on Form 10-Q and the Company’s other public filings, which are available without charge through the SEC’s website at <http://www.sec.gov>.

The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this report not misleading.

DRIVE SHACK INC.
FORM 10-Q
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PART I. FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS

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

	(unaudited) March 31, 2021	December 31, 2020
Assets		
Current assets		
Cash and cash equivalents	\$ 85,936	\$ 47,786
Restricted cash	2,852	2,252
Accounts receivable, net	5,143	4,446
Real estate securities, available-for-sale	3,271	3,223
Other current assets	17,754	14,410
Total current assets	114,956	72,117
Restricted cash, noncurrent	795	795
Property and equipment, net of accumulated depreciation	167,663	169,425
Operating lease right-of-use assets	195,280	192,828
Intangibles, net of accumulated amortization	14,574	15,124
Other assets	6,593	6,765
Total assets	\$ 499,861	\$ 457,054
Liabilities and Equity		
Current liabilities		
Obligations under finance leases	\$ 6,180	\$ 6,470
Membership deposit liabilities	14,748	14,692
Accounts payable and accrued expenses	26,308	29,596
Deferred revenue	20,079	23,010
Other current liabilities	27,504	28,217
Total current liabilities	94,819	101,985
Credit facilities and obligations under finance leases - noncurrent	11,653	12,751
Operating lease liabilities - noncurrent	173,528	167,837
Junior subordinated notes payable	51,180	51,182
Membership deposit liabilities, noncurrent	101,853	99,862
Deferred revenue, noncurrent	10,983	9,953
Other liabilities	3,463	3,447
Total liabilities	\$ 447,479	\$ 447,017
Commitments and contingencies		
Equity		
Preferred stock, \$0.01 par value, 100,000,000 shares authorized, 1,347,321 shares of 9.75% Series B Cumulative Redeemable Preferred Stock, 496,000 shares of 8.05% Series C Cumulative Redeemable Preferred Stock, and 620,000 shares of 8.375% Series D Cumulative Redeemable Preferred Stock, liquidation preference \$25.00 per share, issued and outstanding as of March 31, 2021 and December 31, 2020	\$ 61,583	\$ 61,583
Common stock, \$0.01 par value, 1,000,000,000 shares authorized, 92,027,806 and 67,323,592 shares issued and outstanding at March 31, 2021 and December 31, 2020, respectively	919	673
Additional paid-in capital	3,232,713	3,178,704
Accumulated deficit	(3,244,225)	(3,232,391)
Accumulated other comprehensive income	1,392	1,468
Total equity	\$ 52,382	\$ 10,037
Total liabilities and equity	\$ 499,861	\$ 457,054

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2021	2020
Revenues		
Golf operations	\$ 53,161	\$ 48,625
Sales of food and beverages	7,930	12,510
Total revenues	<u>61,091</u>	<u>61,135</u>
Operating costs		
Operating expenses	48,870	54,367
Cost of sales - food and beverages	2,104	3,655
General and administrative expense	7,982	9,818
Depreciation and amortization	6,245	6,794
Pre-opening costs	556	552
Loss on lease terminations and impairment	3,209	792
Total operating costs	<u>68,966</u>	<u>75,978</u>
Operating loss	(7,875)	(14,843)
Other income (expenses)		
Interest and investment income	153	130
Interest expense, net	(2,626)	(2,745)
Other income (loss), net	(61)	367
Total other income (expenses)	<u>(2,534)</u>	<u>(2,248)</u>
Loss before income tax	(10,409)	(17,091)
Income tax expense	495	271
Net loss	(10,904)	(17,362)
Preferred dividends	(1,395)	(1,395)
Loss applicable to common stockholders	<u>\$ (12,299)</u>	<u>\$ (18,757)</u>
Loss applicable to common stock, per share		
Basic	<u>\$ (0.15)</u>	<u>\$ (0.28)</u>
Diluted	<u>\$ (0.15)</u>	<u>\$ (0.28)</u>
Weighted average number of shares of common stock outstanding		
Basic	<u>82,558,881</u>	<u>67,069,534</u>
Diluted	<u>82,558,881</u>	<u>67,069,534</u>

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS (unaudited)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2021	2020
Net loss	\$ (10,904)	\$ (17,362)
Other comprehensive loss:		
Net unrealized loss on available-for-sale securities	(76)	(38)
Other comprehensive loss	(76)	(38)
Total comprehensive loss	\$ (10,980)	\$ (17,400)
Comprehensive loss attributable to Drive Shack Inc. stockholders' equity	\$ (10,980)	\$ (17,400)

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (unaudited)

FOR THE THREE MONTHS ENDED MARCH 31, 2021 AND 2020

(dollars in thousands, except share data)

	Drive Shack Inc. Stockholders							
	Preferred Stock		Common Stock		Additional Paid- in Capital	Accumulated Deficit	Accumulated Other Comp. Income	Total Equity (Deficit)
	Shares	Amount	Shares	Amount				
Equity (deficit) - December 31, 2020	2,463,321	\$ 61,583	67,323,592	\$ 673	\$ 3,178,704	\$ (3,232,391)	\$ 1,468	\$ 10,037
Dividends declared	—	—	—	—	—	(930)	—	(930)
Stock-based compensation	—	—	—	—	350	—	—	350
Shares issued from options and restricted stock units	—	—	745,881	7	(7)	—	—	—
Shares issued from equity raise	—	—	23,958,333	239	53,666	—	—	53,905
Comprehensive income (loss)								
Net loss	—	—	—	—	—	(10,904)	—	(10,904)
Other comprehensive loss	—	—	—	—	—	—	(76)	(76)
Total comprehensive loss								(10,980)
Equity (deficit) - March 31, 2021	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>92,027,806</u>	<u>\$ 919</u>	<u>\$ 3,232,713</u>	<u>\$ (3,244,225)</u>	<u>\$ 1,392</u>	<u>\$ 52,382</u>
Equity (deficit) - December 31, 2019	2,463,321	\$ 61,583	67,068,751	\$ 671	\$ 3,177,183	\$ (3,175,572)	\$ 1,710	\$ 65,575
Dividends declared	—	—	—	—	—	(465)	—	(465)
Stock-based compensation	—	—	—	—	201	—	—	201
Shares issued from restricted stock units	—	—	1,762	—	—	—	—	—
Comprehensive income (loss)								
Net loss	—	—	—	—	—	(17,362)	—	(17,362)
Other comprehensive income	—	—	—	—	—	—	(38)	(38)
Total comprehensive loss								(17,400)
Equity (deficit) - March 31, 2020	<u>2,463,321</u>	<u>\$ 61,583</u>	<u>67,070,513</u>	<u>\$ 671</u>	<u>\$ 3,177,384</u>	<u>\$ (3,193,399)</u>	<u>\$ 1,672</u>	<u>\$ 47,911</u>

See notes to Consolidated Financial Statements.

DRIVE SHACK INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

(dollars in thousands, except share data)

	Three Months Ended March 31,	
	2021	2020
Cash Flows From Operating Activities		
Net loss	\$ (10,904)	\$ (17,362)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	6,245	6,794
Amortization of discount and premium	(126)	(91)
Other amortization	2,000	1,904
Amortization of revenue on golf membership deposit liabilities	(564)	(364)
Amortization of prepaid golf membership dues	(6,467)	(4,076)
Non-cash operating lease expense	107	958
Stock-based compensation	349	201
Loss on lease terminations and impairment	3,209	792
Equity in earnings, net of impairment from equity method investments	—	(344)
Other losses, net	182	46
Change in:		
Accounts receivable, net, other current assets and other assets - noncurrent	(3,868)	3,913
Accounts payable and accrued expenses, deferred revenue, other current liabilities and other liabilities - noncurrent	2,281	5,052
Net cash used in operating activities	<u>(7,556)</u>	<u>(2,577)</u>
Cash Flows From Investing Activities		
Proceeds from sale of property and equipment	—	91
Acquisition and additions of property and equipment and intangibles	(6,542)	(6,573)
Net cash used in investing activities	<u>(6,542)</u>	<u>(6,482)</u>
Cash Flows From Financing Activities		
Repayments of debt obligations	(1,685)	(1,484)
Golf membership deposits received	815	489
Proceeds from issuance of common stock	53,905	—
Preferred stock dividends paid	—	(1,395)
Other financing activities	(187)	(176)
Net cash provided by (used in) financing activities	<u>52,848</u>	<u>(2,566)</u>
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	<u>38,750</u>	<u>(11,625)</u>
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, Beginning of Period	<u>50,833</u>	<u>31,964</u>
Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent, End of Period	<u>\$ 89,583</u>	<u>\$ 20,339</u>
Supplemental Schedule of Non-Cash Investing and Financing Activities		
Preferred stock dividends declared but not paid	\$ 930	\$ —
Additions to finance lease assets and liabilities	\$ 298	\$ 1,028
(Decreases)/increases in accounts payable and accrued expenses related to the purchase of property and equipment	\$ (1,916)	\$ 3,771

See notes to Consolidated Financial Statements.

1. ORGANIZATION

Drive Shack Inc., a Maryland corporation, was formed in 2002, and its common stock is traded on the NYSE under the symbol "DS." Drive Shack Inc., together with its subsidiaries, is referenced herein as "Drive Shack Inc.," "the Company," "we," or "our". The Company owns and operates golf-related leisure and entertainment venues and courses focused on bringing people together through competitive socializing, by combining sports and entertainment with elevated food and beverage offerings.

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

As of March 31, 2021, the Company's Entertainment Golf segment was comprised of four owned or leased entertainment golf venues across three states with locations in Orlando, Florida; West Palm Beach, Florida; Raleigh, North Carolina; and Richmond, Virginia. This segment also includes the Company's newest entertainment golf brand, Puttery, which is currently under development with the first two venues expected to debut in summer 2021.

The Company's Traditional Golf segment is one of the largest operators of traditional golf properties in the United States. As of March 31, 2021, the Company owned, leased or managed 60 traditional golf properties across nine states.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

COVID-19 — In March 2020, a global pandemic was declared by the World Health Organization related to the rapidly growing outbreak of a novel strain of coronavirus ("COVID-19"). In response to the rapid spread of COVID-19, authorities around the world implemented numerous measures to contain the virus, such as travel bans and restrictions, quarantines, "stay-at-home" or "shelter-in-place" orders and business shutdowns. Many jurisdictions in which we operate required mandatory store closures or imposed capacity limitations and other restrictions affecting our operations. As a result, during March 2020, we temporarily closed all of our Entertainment Golf venues and substantially all of our Traditional Golf courses and furloughed a substantial majority of our employees. In response to the uncertainty caused by the pandemic, we took several actions after we suspended operations to preserve our liquidity position and prepare for multiple contingencies.

Following the temporary closure of our venues in March 2020 in response to the COVID-19 pandemic, three of our four Drive Shack Entertainment Golf venues and all of our Traditional Golf properties were reopened by the end of the second quarter, subject to locally mandated capacity limitations and operational restrictions. Our Entertainment Golf venue in Orlando, Florida re-opened in December 2020. Restrictions on large group gatherings remain in effect in the majority of the jurisdictions in which we operate, which has resulted in the postponement or cancellation of the substantial majority of events, banquets, and other large group gatherings.

The extended length of the COVID-19 pandemic and the related government response have caused, and are continuing to cause, prolonged periods of various operational restrictions and capacity limitations impacting our business operations. In addition, the duration and intensity of the pandemic may result in changes in customer behaviors or preferences. These may lead to increased asset recovery and valuation risks, such as impairment of long-lived and other assets. The extent to which COVID-19 ultimately impacts our business will depend on future developments, which remain highly uncertain and cannot be predicted, including additional actions taken by various governmental bodies and private enterprises to contain COVID-19 or mitigate its impact, among others. The Company currently expects these developments to have a material adverse impact on its revenues, results of operations and cash flows in future periods.

Basis of Presentation — The accompanying Consolidated Financial Statements and related notes of the Company have been prepared in accordance with accounting principles generally accepted in the United States for interim financial reporting and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared under U.S. generally accepted accounting principles, 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, 2020 and notes thereto included in the Company's Annual Report on Form 10-K filed with the SEC on March 16, 2021. Capitalized terms used herein, and not otherwise defined, are defined in the Company's Consolidated Financial Statements for the year ended December 31, 2020. There have been no

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2021

(dollars in tables in thousands, except share data)

significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

The Company's significant accounting policies for these financial statements as of March 31, 2021 are summarized below and should be read in conjunction with the Summary of Significant Accounting Policies detailed in the Company's Annual Report on Form 10-K for the year ended December 31, 2020.

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.

Real Estate, Held-for-Sale — Long-lived assets to be disposed of by sale, which meet certain criteria, are reclassified to real estate held-for-sale and measured at the lower of their carrying amount or fair value less costs to sell. The Company suspends depreciation and amortization for assets held-for-sale. Subsequent changes to the estimated fair value less costs to sell could impact the measurement of assets held-for-sale. Decreases below carrying value are recognized as an impairment loss and recorded in "Loss on lease terminations and impairment" on the Consolidated Statements of Operations. To the extent the fair value increases, any previously reported impairment is reversed to the extent of the impairment taken.

On March 7, 2018, the Company announced it was actively pursuing the sale of 26 owned Traditional Golf properties in order to generate capital for reinvestment in the Entertainment Golf business. On October 16, 2020, the Company completed the sale of that remaining held-for-sale Traditional Golf property for a sale price of \$34.5 million and received net cash proceeds of approximately \$33.6 million. As of March 31, 2021, the Company does not have any properties classified as held-for-sale.

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

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

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

The Company has elected to combine lease and non-lease components for all lease contracts.

Other Investments — The Company owns an approximately 22% economic interest in a limited liability company which owns preferred equity in a commercial real estate project. The Company accounts for this investment as an equity method investment. The Company evaluates its equity method investment for other-than-temporary impairment whenever events or changes in

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circumstances indicate that the carrying amount of the investment might not be recoverable. The evaluation of recoverability is based on management's assessment of the financial condition and near-term prospects of the commercial real estate project, the length of time and the extent to which the market value of the investment has been less than cost, availability and cost of financing, demand for space, competition for tenants, changes in market rental rates, and operating results. As these factors are difficult to predict and are subject to future events that may alter management's assumptions, the values estimated by management in its recoverability analyses may not be realized, and actual losses or impairment may be realized in the future. As the fair value inputs utilized are unobservable, the Company determined that the significant inputs used to value this real estate investment fall within Level 3 for fair value reporting.

The operations and ongoing construction at the commercial real estate project halted due to the COVID-19 pandemic in mid-March 2020 and the Company recorded an other-than-temporary impairment charge of \$24.7 million during the three months ended June 30, 2020. The other-than-temporary impairment charge was recorded in "Other income (loss), net" on the Consolidated Statements of Operations. The property reopened to the public with additional entertainment venues and retail shops in October 2020 while following COVID-19 related operational restrictions and capacity limitations, and implementing social distancing measures. However, the ability of the commercial real estate project to obtain additional funding to complete the construction and attain the financial results needed to recover any of our investment remains highly uncertain. The carrying value of the investment was zero as of both March 31, 2021, and December 31, 2020.

Impairment of Long-lived Assets— The Company periodically reviews the carrying amounts of its long-lived assets, including real estate held-for-use and held-for-sale, as well as finite-lived intangible assets and right-of-use assets, to determine whether current events or circumstances indicate that such carrying amounts may not be recoverable. The assessment of recoverability is based on management's estimates by comparing the sum of the estimated undiscounted cash flows generated by the underlying asset, or other appropriate grouping of assets, to its carrying value to determine whether an impairment existed at its lowest level of identifiable cash flows. If the carrying amount is greater than the expected undiscounted cash flows, the asset is considered impaired and an impairment is recognized to the extent the carrying value of such asset exceeds its fair value. The Company generally measures fair value by considering sale prices for similar assets or by discounting estimated future cash flows using an appropriate discount rate.

Other Current Assets

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

	March 31, 2021	December 31, 2020
Managed property receivables	\$ 4,638	\$ 3,236
Prepaid expenses	3,048	3,158
Deposits	1,223	767
Inventory	2,012	1,950
Miscellaneous current assets, net	6,833	5,299
Other current assets	<u>\$ 17,754</u>	<u>\$ 14,410</u>

Other Assets

The following table summarizes the Company's other assets:

	March 31, 2021	December 31, 2020
Prepaid expenses	\$ 701	\$ 2,154
Deposits	3,908	2,504
Miscellaneous assets, net	1,984	2,107
Other assets	<u>\$ 6,593</u>	<u>\$ 6,765</u>

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Other Current Liabilities

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

	March 31, 2021	December 31, 2020
Operating lease liabilities	\$ 19,062	\$ 19,894
Accrued rent	3,122	4,318
Dividends payable	930	—
Miscellaneous current liabilities	4,390	4,005
Other current liabilities	<u>\$ 27,504</u>	<u>\$ 28,217</u>

Membership Deposit Liabilities -Private country club members in our Traditional Golf business generally pay an advance initiation fee deposit upon their acceptance as members to their respective country clubs. Initiation fee deposits are refundable 30 years after the date of acceptance as a member. The difference between the initiation fee 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.

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

	Three Months Ended March 31,	
	2021	2020
Collateral management fee income, net	\$ 56	\$ 72
Equity in earnings, net of impairment from equity method investments	—	344
Gain (loss) on sale of long-lived assets and intangibles	(15)	48
Other loss	(102)	(97)
Other income (loss), net	<u>\$ (61)</u>	<u>\$ 367</u>

Recent Accounting Pronouncements

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes. The standard removes certain exceptions for investments, intraperiod allocations and interim tax calculations and adds guidance to reduce complexity in accounting for income taxes. The effective date of the standard is for annual periods beginning after December 15, 2020, with early adoption permitted. The various amendments in the standard are applied on a retrospective basis, modified retrospective basis and prospective basis, depending on the amendment. The Company adopted ASU 2019-12 as of the fiscal year beginning January 1, 2021. The adoption of ASU 2019-12 had no material impact on the Company's financial statements.

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.

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The Company's revenues are generated within the Entertainment Golf and Traditional Golf segments. The following tables disaggregate revenue by category: entertainment golf venues, public and private golf properties (owned and leased) and managed golf properties.

	Three Months Ended March 31, 2021				Total
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	
Golf operations	\$ 3,421	\$ 19,172	\$ 14,719	\$ 15,849	\$ 53,161
Sales of food and beverages	4,802	1,855	1,273	—	7,930
Total revenues	\$ 8,223	\$ 21,027	\$ 15,992	\$ 15,849	\$ 61,091

	Three Months Ended March 31, 2020				Total
	Ent. golf venues	Public golf properties	Private golf properties	Managed golf properties (A)	
Golf operations	\$ 3,910	\$ 16,023	\$ 13,655	\$ 15,037	\$ 48,625
Sales of food and beverages	6,207	4,285	2,018	—	12,510
Total revenues	\$ 10,117	\$ 20,308	\$ 15,673	\$ 15,037	\$ 61,135

(A) Includes \$13.8 million for the three months ended March 31, 2021, and \$13.3 million for the three months ended March 31, 2020, respectively, related to management contract reimbursements reported under ASC 606.

4. SEGMENT REPORTING

The Company currently has three reportable segments: (i) Entertainment Golf, (ii) Traditional Golf and (iii) corporate. The Company has determined that its chief operating decision maker ("CODM") is the Chief Executive Officer and President, who reviews discrete financial information, including resource allocation and performance assessment, for each reportable segment to manage the Company.

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 the Company's new Puttery sites. As of March 31, 2021, the Company operated four Drive Shack venues across three states which are located in Orlando, Florida; West Palm Beach, Florida; Raleigh, North Carolina; and Richmond, Virginia. Puttery remains under development and the first two venues are expected to debut in Dallas and Charlotte in summer 2021.

The Company's Traditional Golf business is one of the largest operators of golf courses and country clubs in the United States. As of March 31, 2021, the Company owned, leased or managed 60 Traditional Golf properties across nine states.

The corporate segment consists primarily of investments in loans and securities, interest income on short-term investments, general and administrative expenses as a public company, interest expense on the junior subordinated notes payable (Note 8) and income tax expense (Note 14).

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

	Entertainment Golf	Traditional Golf	Corporate	Total
Three Months Ended March 31, 2021				
Revenues				
Golf operations	\$ 3,421	\$ 49,740	\$ —	\$ 53,161
Sales of food and beverages	4,802	3,128	—	7,930
Total revenues	8,223	52,868	—	61,091
Operating costs				
Operating expenses	5,133	43,737	—	48,870
Cost of sales - food and beverages	1,085	1,019	—	2,104
General and administrative expense (A)	2,198	2,378	3,210	7,786
General and administrative expense - acquisition and transaction expenses (B)	192	—	4	196
Depreciation and amortization	2,952	3,221	72	6,245
Pre-opening costs (C)	556	—	—	556
Loss on lease terminations and impairment	22	—	3,187	3,209
Total operating costs	12,138	50,355	6,473	68,966
Operating (loss) income	(3,915)	2,513	(6,473)	(7,875)
Other income (expenses)				
Interest and investment income	—	20	133	153
Interest expense (D)	(82)	(2,251)	(316)	(2,649)
Capitalized interest (D)	—	8	15	23
Other income (loss), net	—	(114)	53	(61)
Total other income (expenses)	(82)	(2,337)	(115)	(2,534)
Income tax expense	—	—	495	495
Net income (loss)	(3,997)	176	(7,083)	(10,904)
Preferred dividends	—	—	(1,395)	(1,395)
Loss applicable to common stockholders	\$ (3,997)	\$ 176	\$ (8,478)	\$ (12,299)
March 31, 2021				
Total assets	176,618	261,310	61,933	499,861
Total liabilities	44,951	339,447	63,081	447,479
Preferred stock	—	—	61,583	61,583
Equity	\$ 131,667	\$ (78,137)	\$ (62,731)	\$ (9,201)
Additions to property and equipment (including finance leases) during the three months ended March 31, 2021	\$ 3,789	\$ 1,135	\$ —	\$ 4,924

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	Entertainment Golf	Traditional Golf	Corporate	Total
Three Months Ended March 31, 2020				
Revenues				
Golf operations	\$ 3,910	\$ 44,715	\$ —	\$ 48,625
Sales of food and beverages	6,207	6,303	—	12,510
Total revenues	10,117	51,018	—	61,135
Operating costs				
Operating expenses	8,172	46,195	—	54,367
Cost of sales - food and beverages	1,610	2,045	—	3,655
General and administrative expense (A)	3,169	3,093	2,378	8,640
General and administrative expense - acquisition and transaction expenses (B)	34	122	1,022	1,178
Depreciation and amortization	3,020	3,703	71	6,794
Pre-opening costs (C)	552	—	—	552
Loss on lease terminations and impairment	—	792	—	792
Total operating costs	16,557	55,950	3,471	75,978
Operating (loss) income	(6,440)	(4,932)	(3,471)	(14,843)
Other income (expenses)				
Interest and investment income	1	15	114	130
Interest expense (D)	(105)	(2,147)	(526)	(2,778)
Capitalized interest (D)	—	9	24	33
Other income (loss), net	—	(46)	413	367
Total other income (expenses)	(104)	(2,169)	25	(2,248)
Income tax expense	—	—	271	271
Net loss	(6,544)	(7,101)	(3,717)	(17,362)
Preferred dividends	—	—	(1,395)	(1,395)
Loss applicable to common stockholders	\$ (6,544)	\$ (7,101)	\$ (5,112)	\$ (18,757)

(A) General and administrative expenses included severance expenses of \$0.1 million for the three months ended March 31, 2021, and \$0.7 million for the three months ended March 31, 2020.

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

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

(D) Interest expense included the accretion of membership deposit liabilities in the amount of \$2.0 million for the three months ended March 31, 2021, and \$1.9 million for the three months ended March 31, 2020. Interest expense and capitalized interest are combined in interest expense, net on the Consolidated Statements of Operations.

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5. PROPERTY AND EQUIPMENT, NET OF ACCUMULATED DEPRECIATION

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

	March 31, 2021			December 31, 2020		
	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	144,134	(42,391)	101,743	142,635	(40,198)	102,437
Furniture, fixtures and equipment	51,422	(26,220)	25,202	51,622	(24,422)	27,200
Finance leases - equipment	32,661	(14,920)	17,741	34,339	(15,296)	19,043
Construction in progress	16,207	—	16,207	13,975	—	13,975
Total Property and Equipment	\$ 251,194	\$ (83,531)	\$ 167,663	\$ 249,341	\$ (79,916)	\$ 169,425

6. LEASES

The Company's commitments under lease arrangements are primarily ground leases for Entertainment Golf venues and Traditional Golf properties and related facilities, office leases and leases for 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 (see Note 13 for additional detail). Equipment and golf cart leases initially range between 24 to 66 months and typically contain renewal options which may be on a month-to-month basis. An option to renew a lease is included in the determination of the ROU asset and lease liability when it is reasonably certain that the renewal option will be exercised.

Lease related costs recognized in the Consolidated Statements of Operations for the three months ended March 31, 2021, and March 31, 2020, are as follows:

	Three Months Ended March 31,	
	2021	2020
Finance lease cost		
Amortization of right-of-use assets	\$ 1,467	1,532
Interest on lease liabilities	325	341
Total finance lease cost	1,792	1,873
Operating lease cost		
Operating lease cost	8,904	9,267
Short-term lease cost	340	428
Variable lease cost	4,008	2,788
Total operating lease cost	13,252	12,483
Total lease cost	\$ 15,044	14,356

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Other information related to leases included on the Consolidated Balance Sheet as of and for the three months ended March 31, 2021 are as follows:

	Operating Leases	Financing Leases
Right-of-use assets	195,280	17,741
Lease liabilities	192,590	17,633
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows	8,954	325
Financing cash flows	—	1,685
Right-of-use assets obtained in exchange for lease liabilities	9,765	298
Weighted average remaining lease term	14.0 years	3.7 years
Weighted average discount rate	8.2 %	6.4 %

Future minimum lease payments under non-cancellable leases as of March 31, 2021 are as follows:

	Operating Leases	Financing Leases
April 1, 2021 - December 31, 2021	26,156	5,241
2022	30,662	5,721
2023	30,514	4,665
2024	24,536	2,481
2025	21,555	1,240
Thereafter	183,074	318
Total minimum lease payments	316,497	19,666
Less: imputed interest	123,907	2,033
Total lease liabilities	\$ 192,590	\$ 17,633

7. INTANGIBLES, NET OF ACCUMULATED AMORTIZATION

The following table summarizes the Company's intangible assets:

	March 31, 2021			December 31, 2020		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Trade name	\$ 700	\$ (169)	\$ 531	\$ 700	\$ (163)	\$ 537
Management contracts	31,043	(18,920)	12,123	31,043	(18,427)	12,616
Internally-developed software	314	(94)	220	314	(79)	235
Membership base	5,944	(5,250)	694	5,944	(5,236)	708
Nonamortizable liquor licenses	1,006	—	1,006	1,028	—	1,028
Total Intangibles	\$ 39,007	\$ (24,433)	\$ 14,574	\$ 39,029	\$ (23,905)	\$ 15,124

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8. DEBT OBLIGATIONS

The following table presents certain information regarding the Company's debt obligations at March 31, 2021 and December 31, 2020:

Debt Obligation/Collateral	Month Issued	March 31, 2021						December 31, 2020		
		Outstanding Face Amount	Carrying Value	Final Stated Maturity	Weighted Average Coupon	Weighted Average Funding Cost (A)	Weighted Average Life (Years)	Face Amount of Floating Rate Debt	Outstanding Face Amount	Carrying Value
Credit Facilities and Finance Leases										
Vineyard II	Dec 1993	\$ 200	\$ 200	Dec 2043	2.43%	2.43 %	22.7	\$ —	\$ 200	\$ 200
Finance leases (Equipment)	Jul 2014 - Mar 2021	17,633	17,633	Mar 2021 - Sep 2026	3.00% to 15.00%	6.37 %	3.5	—	19,021	19,021
		17,833	17,833			6.33 %			3.7	19,221
Less current portion of obligations under finance leases		6,180	6,180						6,470	6,470
Credit facilities and obligations under finance leases - noncurrent		11,653	11,653						12,751	12,751
Corporate										
Junior subordinated notes payable (B)	Mar 2006	51,004	51,180	Apr 2035	LIBOR+2.25%	2.43 %	14.1	51,004	51,004	51,182
Total debt obligations		\$ 68,837	\$ 69,013			3.69 %	11.6	\$ 51,004	\$ 70,225	\$ 70,403

(A) Including the effect of deferred financing costs.

(B) Interest rate based on 3 month LIBOR plus 2.25%. Collateral for this obligation is the Company's general credit.

9. REAL ESTATE SECURITIES

The following is a summary of the Company's real estate securities at March 31, 2021, which are classified as available-for-sale and are, therefore, reported at fair value with changes in fair value recorded in other comprehensive income, except for securities that are other-than-temporarily impaired.

Asset Type	Outstanding Face Amount	Amortized Cost Basis			Gross Unrealized			Carrying Value (A)	Number of Securities	Weighted Average				Principal Subordination (D)
		Before Impairment	Other-Than-Temporary Impairment	After Impairment	Gains	Losses	Rating (B)			Coupon	Yield	Life (Years) (C)		
March 31, 2021														
ABS - Non-Agency RMBS (E)	\$ 4,000	\$ 3,400	\$ (1,521)	\$ 1,879	\$ 1,392	\$ —	\$ 3,271	1	CCC	0.71 %	29.16 %	2.4	55.2 %	
December 31, 2020														
ABS - Non-Agency RMBS (E)	\$ 4,000	\$ 3,276	\$ (1,521)	\$ 1,755	\$ 1,468	\$ —	\$ 3,223	1	CCC	0.73 %	29.14 %	2.6	52.2 %	

(A) See Note 10 regarding the estimation of fair value, which is equal to carrying value for all securities.

(B) Represents the weighted average of the ratings of all securities in each asset type, expressed as an S&P equivalent rating. For each security rated by multiple rating agencies, the lowest rating is used. Ratings provided were determined by third-party rating agencies, represent the most recent credit ratings available as of the reporting date and may not be current.

(C) The weighted average life is based on the timing of expected cash flows on the assets.

(D) Percentage of the outstanding face amount of securities and residual interests that is subordinate to the Company's investment.

(E) 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.

The Company had no securities in an unrealized loss position as of March 31, 2021.

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10. FAIR VALUE OF FINANCIAL INSTRUMENTS*Fair Value Summary Table*

The following table summarizes the carrying values and estimated fair values of the Company's financial instruments at March 31, 2021:

	March 31, 2021			December 31, 2020	
	Carrying Value	Estimated Fair Value	Fair Value Method (A)	Carrying Value	Estimated Fair Value
Assets					
Real estate securities, available-for-sale	\$ 3,271	\$ 3,027	Pricing models - Level 3	\$ 3,223	\$ 3,223
Cash and cash equivalents	85,936	85,936		47,786	47,786
Restricted cash, current and noncurrent	3,647	3,647		3,047	3,047
Liabilities					
Junior subordinated notes payable	51,180	25,774	Pricing models - Level 3	51,182	18,591

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

Fair Value Measurements*Valuation Hierarchy*

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

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

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

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

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

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

The Company has various processes and controls in place to ensure that fair value measurements are reasonably estimated. With respect to broker and pricing service quotations, and in order to ensure these quotes represent a reasonable estimate of fair value, the Company's quarterly procedures include a comparison of such quotations to quotations from different sources, outputs generated from its internal pricing models and transactions completed, as well as on its knowledge and experience of these markets. With respect to fair value estimates generated based on the Company's internal pricing models, the Company's management validates the inputs and outputs of the internal pricing models by comparing them to available independent third-party market parameters and models, where available, for reasonableness. The Company believes its valuation methods and the assumptions used are appropriate and consistent with other market participants.

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

Significant Unobservable Inputs

The following table provides quantitative information regarding the significant unobservable inputs used by the Company for assets and liabilities measured at fair value on a recurring basis as of March 31, 2021:

Asset Type	Amortized Cost Basis	Fair Value	Significant Inputs			
			Discount Rate	Prepayment Speed	Cumulative Default Rate	Loss Severity
ABS - Non-Agency RMBS	\$ 1,879	\$ 3,271	10.0 %	7.5 %	2.7 %	65.0 %

All of the inputs used have some degree of market observability, based on the Company's knowledge of the market, relationships with market participants, and use of common market data sources. Collateral prepayment, default and loss severity projections are in the form of "curves" or "vectors" that vary for each monthly collateral cash flow projection. Methods used to develop these projections vary by asset class but conform to industry conventions. The Company uses assumptions that generate its best estimate of future cash flows of each respective security.

Real estate securities measured at fair value on a recurring basis using Level 3 inputs changed during the three months ended March 31, 2021 as follows:

	ABS - Non-Agency RMBS	
Balance at December 31, 2020	\$	3,223
Total gains (losses) (A)		
Included in other comprehensive income (loss)		(76)
Amortization included in interest income		131
Purchases, sales and repayments (A)		
Proceeds		(7)
Balance at March 31, 2021	\$	3,271

(A) None of the gains (losses) recorded in earnings during the period are attributable to the change in unrealized gains (losses) relating to Level 3 assets still held at the reporting dates. There were no purchases or sales during the three months ended March 31, 2021.

Liabilities for Which Fair Value is Only Disclosed

The following table summarizes the level of the fair value hierarchy, valuation techniques and inputs used for estimating each class of liabilities not measured at fair value in the statement of financial position but for which fair value is disclosed:

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

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

MARCH 31, 2021

(dollars in tables in thousands, except share data)

11. EQUITY AND EARNINGS PER SHARE

A. Stock Options

The following is a summary of the changes in the Company's outstanding options for the three months ended March 31, 2021:

	Number of Options	Weighted Average Strike Price	Weighted Average Life Remaining (in years)
Balance at December 31, 2020	4,935,732	\$ 2.57	
Exercised	(1,048,652)	1.00	
Balance at March 31, 2021	<u>3,887,080</u>	<u>\$ 3.00</u>	2.24
Exercisable at March 31, 2021	2,704,738	\$ 3.13	2.34

As of March 31, 2021, the Company's outstanding options were summarized as follows:

	Number of Options
Held by the former Manager	2,578,593
Issued to the former Manager and subsequently transferred to certain of the Manager's employees (A)	1,308,154
Issued to the independent directors	333
Total	<u>3,887,080</u>
Weighted average strike price	<u>\$ 3.00</u>

(A) The Company and the former Manager agreed that options held by certain employees formerly employed by the Manager will not terminate or be forfeited as a result of the Termination and Cooperation Agreement, and the vesting of such options will relate to the relevant holder's employment with the Company and its affiliates following January 1, 2018. In both February 2017 and April 2018, the former Manager issued 1,152,495 options to certain employees formerly employed by the Manager as part of their compensation. The options fully vest and are exercisable one year prior to the option expiration date, beginning March 2020 through January 2024. In 2019, a certain employee was terminated by the Company and 921,992 options reverted back to the former Manager. The Company reversed \$1.2 million in stock compensation expense related to these options. For the three months ending March 31, 2021, the former Manager exercised 1,048,652 options at a weighted average strike price of \$1.00 resulting in common shares issued of 736,551.

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 \$0.2 million during the three months ended March 31, 2021, and \$0.1 million during the three months ended March 31, 2020, respectively, and was recorded in general and administrative expense on the Consolidated Statements of Operations. The unrecognized stock-based compensation expense related to the unvested options was \$0.9 million as of March 31, 2021 and will be expensed over a weighted average of 1.6 years.

B. Restricted Stock Units ("RSUs")

The following is a summary of the changes in the Company's RSUs for the three months ended March 31, 2021.

	Number of RSUs	Weighted Average Grant Date Fair Value (per unit)
Balance at December 31, 2020	259,238	\$ 3.72
Vested / Released	(12,538)	\$ 4.19
Forfeited	(11,777)	\$ 4.67
Balance at March 31, 2021	<u>234,923</u>	<u>\$ 3.64</u>

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(dollars in tables in thousands, except share data)

The Company grants RSUs to the non-employee directors as part of their annual compensation. The RSUs are subject to a one year vesting period. During the three months ended March 31, 2021, the Company granted no RSUs to non-employee directors and 5,423 RSUs granted to non-employee directors vested. The Company also grants RSUs to employees as part of their annual compensation. The RSUs vest in equal annual installments on each of the first three anniversaries of the grant date. During the three months ended March 31, 2021, the Company granted no RSUs to employees and 7,115 RSUs granted to employees vested. Stock-based compensation expense is recognized on a straight-line basis through the vesting date of the RSUs. Stock-based compensation expense related to RSUs was \$0.1 million during the three months ended March 31, 2021, and \$0.3 million for the three months ended March 31, 2020. Stock-based compensation expense was recorded in general and administrative expense on the Consolidated Statements of Operations. The unrecognized stock-based compensation expense related to the unvested RSUs was \$0.5 million as of March 31, 2021 and will be expensed over a weighted average of 1 year.

C. Dividends

No dividends were declared during the three months ended March 31, 2020 on the 9.750% Series B, 8.050% Series C or 8.375% Series D preferred stock, for the twelve-month period beginning February 1, 2020 and ending January 31, 2021. On March 12, 2021 the board of directors declared dividends on the Company's preferred stock for the period beginning February 1, 2021 and ending April 30, 2021, payable on April 30, 2021 to holders of record of preferred stock on April 1, 2021, 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. Dividends totaling \$1.4 million were paid on April 29, 2021.

D. Earnings Per Share

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

	Three Months Ended March 31,	
	2021	2020
Numerator for basic and diluted earnings per share:		
Loss from continuing operations after preferred dividends	\$ (12,299)	\$ (18,757)
Loss Applicable to Common Stockholders	<u>\$ (12,299)</u>	<u>\$ (18,757)</u>
Denominator:		
Denominator for basic earnings per share - weighted average shares	82,558,881	67,069,534
Effect of dilutive securities		
Options	—	—
RSUs	—	—
Denominator for diluted earnings per share - adjusted weighted average shares	<u>82,558,881</u>	<u>67,069,534</u>
Basic earnings per share:		
Loss from continuing operations per share of common stock after preferred dividends	\$ (0.15)	\$ (0.28)
Loss Applicable to Common Stock, per share	<u>\$ (0.15)</u>	<u>\$ (0.28)</u>
Diluted earnings per share:		
Loss from continuing operations per share of common stock after preferred dividends	\$ (0.15)	\$ (0.28)
Loss Applicable to Common Stock, per share	<u>\$ (0.15)</u>	<u>\$ (0.28)</u>

The Company's dilutive securities are outstanding stock options and RSUs. During the three months ended March 31, 2021, based on the treasury stock method, the Company had 881,911 outstanding stock options and RSUs, respectively, which were excluded due to the Company's loss position. During the three months ended March 31, 2020, based on the treasury stock method, the Company had 964,335 potentially dilutive securities.

DRIVE SHACK INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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(dollars in tables in thousands, except share data)

On February 2, 2021, the Company completed the public offering of 23,285,553 shares of common stock and the sale of 672,780 shares of common stock to the Chairman of our Board of Directors resulting in net proceeds to the Company of \$54.6 million, after deducting the underwriters discount of \$2.9 million. Other expenses related to the offering totaled \$0.6 million. The Company intends to use all of the net proceeds from the offering to fund its 2021 Puttery expansion and for general corporate purposes.

12. TRANSACTIONS WITH AFFILIATES AND AFFILIATED ENTITIES

Other Affiliated Entities

The Company incurred expenses for services of a Company executive prior to execution of an employment agreement, which will be reimbursed to an affiliate of a member of the Board of Directors, subject to Board approval. The Company accrued \$0.2 million in compensation expense for the year ended December 31, 2019, and an additional \$0.1 million during 2020. The amounts were repaid as of March 31, 2021.

13. COMMITMENTS AND CONTINGENCIES

Legal Contingencies - The Company is and may become, from time to time, involved in legal actions in the ordinary course of business, including governmental and administrative investigations, inquiries and proceedings concerning employment, labor, environmental, personal injury and other claims. Although management is unable to predict with certainty the eventual outcome of any legal action, management believes the ultimate liability arising from such actions, individually and in the aggregate, which existed at March 31, 2021, will not materially affect the Company's consolidated results of operations, financial position or cash flow. Given the inherent unpredictability of these types of proceedings, however, it is possible that future adverse outcomes could have a material effect on our financial results.

Commitments - As of March 31, 2021, the Company had future payments for additional operating leases that had not yet commenced of \$9.0 million. The leases are expected to commence over the next 12 - 24 months with lease terms of approximately 10 to 15 years. These leases are primarily real estate leases for future Puttery venues and the recognition of these leases on our balance sheet generally occurs when the Company takes possession of the underlying property.

Preferred Dividends in Arrears - As of March 31, 2021, \$5.6 million of dividends on the Company's cumulative preferred stock were unpaid and in arrears.

14. INCOME TAXES

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

The Company's income tax provision was \$0.5 million and \$0.3 million for the three months ended March 31, 2021, and 2020 respectively.

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

The Company recorded a valuation allowance against its deferred tax assets as of March 31, 2021 as management does not believe that it is more likely than not that the deferred tax assets will be realized.

The Company and its subsidiaries file U.S. federal and state income tax returns in various jurisdictions. As of March 31, 2021, the Company is not subject to examination by the IRS for the tax years prior to 2017 and is not currently under examination in any state jurisdictions for open tax years 2017 and after.

At December 31, 2020 and March 31, 2021, the Company reported a total liability for unrecognized tax benefits of \$1.2 million. The Company does not anticipate any significant increases or decreases to the balance of unrecognized tax benefits during the next 12 months.

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

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On March 11, 2021, President Biden signed the American Rescue Plan Act of 2021 in response to the COVID-19 pandemic. The legislation does not have a material impact on the Company's tax positions.

15. LOSS ON LEASE TERMINATIONS AND IMPAIRMENT

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

	Three Months Ended March 31,	
	2021	2020
Impairment on corporate office assets (held-for-use)	\$ 3,209	\$ —
Impairment on traditional golf properties (held-for-use)	—	792
Total (gain) loss on lease terminations and impairment	\$ 3,209	\$ 792

Held-for-Use Impairment - During the three months ended March 31, 2021, the Company recorded impairment charges of \$3.2 million related to right-of-use and other lease related assets of our former headquarters office in New York given the relocation of the Company's headquarters to Dallas, TX. This includes impairment of leasehold improvements of \$0.3 million, furniture fixtures, and equipment of \$0.6 million, and ROU assets of \$2.3 million. The Company evaluated the recoverability of the carrying value of these assets using the income approach based on future assumptions of cash flows. The development of discounted cash flow models used to estimate the fair value of the asset groups required the application of significant judgement in determining market participant assumptions, including the projected sublease income over the remaining lease terms, expected downtime prior to the commencement of future subleases, expected lease incentives offered to future tenants, and discount rates that reflected the level of risk associated with these future cash flows. As the fair value inputs utilized are unobservable, the Company determined that the significant inputs used to value these properties fall within Level 3 for fair value reporting.

Held-for-Use Impairment: During the three months ended March 31, 2020, the Company recorded impairment charges totaling \$0.8 million for one traditional golf property. The Company evaluated the recoverability of the carrying value of these assets using the income approach based on future assumptions of cash flows. As the fair value inputs utilized are unobservable, the Company determined that the significant inputs used to value these properties fall within Level 3 for fair value reporting.

16. SUBSEQUENT EVENTS

Following the close of business on March 31, 2021, management agreements expired for the Lomas Santa Fe Country Club, Tustin Ranch Golf Club, and Yorba Linda Country Club, reducing the total number of courses managed in our traditional golf business to 22. In May 2021, the SeaCliff Country Club lease expired, reducing the total number of leased courses in our traditional golf business to 33. The total annual revenue generated by the four properties during fiscal year ended December 31, 2020 and the quarter ended March 31, 2021 was \$22.4 million and \$6.6 million, respectively.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's discussion and analysis of financial condition and results of operations is intended to help the reader understand the results of operations and financial condition of Drive Shack Inc., which is referred to, together with its subsidiaries as Drive Shack Inc. or the Company. The following should be read in conjunction with the unaudited Consolidated Financial Statements and notes thereto and with Part II, Item 1A. "Risk Factors" of this report and Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

GENERAL

Business Overview

Drive Shack Inc. a Maryland corporation, was formed in 2002 and its common stock is traded on the NYSE under the symbol "DS." The Company owns and operates golf-related leisure and social entertainment venues and courses focused on bringing people together through competitive socializing, by combining sports and entertainment with elevated food and beverage offerings.

The Company conducts its business through an integrated portfolio spanning three brands, Drive Shack, American Golf, and Puttery. Drive Shack, which launched in 2018, owns and operates four entertainment golf venues featuring tech-enabled hitting bays with in-bay dining, full-service restaurants, bars, and event spaces. American Golf, the longest-running business in our portfolio, owns, leases, and manages 60 traditional golf properties spanning nine states throughout the U.S. Puttery, the Company's newest competitive socializing and entertainment platform, is a smaller venue format featuring indoor technology-enabled putting with miniature golf courses, full-service restaurants, multiple bars, lounges, and VIP spaces. The Company expects to launch its first Puttery venue in 2021.

Operating Segments

- **Entertainment Golf | Drive Shack**

Drive Shack offers leisure and 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 March 31, 2021, the Company operated four Drive Shack venues located in Orlando, Florida; West Palm Beach, Florida; Raleigh, North Carolina; and Richmond, Virginia. Additionally, the Company is committed to leases in New Orleans, Louisiana and in Manhattan (Randall's Island), New York for its entertainment golf venues. Drive Shack venues are freestanding 60,000 square feet open-air venues built on approximately 12 acres. This segment also includes the Company's newest entertainment golf brand, Puttery, which is currently under development with the first two venues expected to debut in summer 2021. Refer to New Venue Development and Growth section for additional information on Puttery.

- **Traditional Golf | American Golf**

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 March 31, 2021, we owned, leased or managed 60 properties across nine states. American Golf is focused on delivering lasting experiences for our guests, with over 34,000 members and over 570,000 rounds played at our owned and leased properties during the three months ended March 31, 2021.

Our traditional golf operations are organized into three principal categories due to the nature of the revenue streams generated by the following properties: (1) public properties (leased and owned), (2) private properties (leased and owned) and (3) managed properties (public and private).

Public Properties. Our 30 leased public properties generate revenues principally through daily green fees, golf cart rentals and food, beverage and merchandise sales. Amenities at these properties generally include practice facilities, pro shops and food and beverage facilities. In some locations, our public properties have larger clubhouses with

extensive banquet facilities. In addition, The Players Club is a fee-based, monthly membership program offered at most of our public properties, with membership benefits ranging from daily range access and off-peak course access to the ability to participate in golf clinics.

Private Properties. Our five leased or owned private properties, which are open to members and their guests, generate revenues principally through initiation fees, membership dues, food, beverage and merchandise sales, and guest fees. Amenities at these properties typically include practice facilities, full-service clubhouses with a pro shop, locker room facilities and multiple food and beverage outlets, including grills, restaurants and banquet facilities.

Managed Properties. Our 25 managed properties are operated by American Golf pursuant to management agreements with the owners of each property. We recognize revenue from each of these properties in an amount equal to a management fee and the reimbursements of certain operating costs.

New Venue Development and Growth | Puttery

We believe Drive Shack Inc. is the only company comprised of a truly integrated portfolio of both Entertainment and Traditional Golf businesses, which provides us with a unique opportunity to unlock top site locations by leveraging the operational experiences and municipal relationships developed by our traditional golf business. The Company strives to forward innovate and revolutionize next generation experiences. In 2021, the Company expects to launch its newest competitive socializing and entertainment platform with a smaller venue format called "Puttery."

Puttery is expected to expand our business by diversifying our experiential offerings with a modern spin on indoor mini golf through auto-scoring technology that presents digital scores to guests in real-time. Each location will feature a series of tech-enabled miniature golf courses anchored by bars and other social spaces that will serve to create engaging and fun experiences for our guests.

Our Puttery venues require much less space, approximately 15,000 - 20,000 sq.ft. of indoor new or existing retail space. The new small venue format expands store potential by hundreds of markets due to the vast availability of real estate, shorter development timelines, less capital risk and higher development yields. Advanced data and demographic analytics will allow us to strategically evaluate and develop a robust pipeline of target sites in prioritized markets across the United States. As we look to further grow our Puttery brand, the smaller format offers us the opportunity to improve investment returns and take advantage of the vast availability of retail space at a potential discount.

The Company expects to open or nearly complete seven Puttery venues by the end of 2021, with its first three venues in Dallas, Texas, Charlotte, North Carolina, and Washington DC.

Notable Operational Results

COVID-19 has pushed us to reimagine the way we operate across critical aspects of our business. We remain focused on our core fundamentals, seeking opportunities to drive operational efficiencies and continuous improvement while providing an outstanding guest experience.

During the first quarter, our three reopened Drive Shack venues generated total revenue of \$8.2 million, while operating under COVID-19 capacity limitations at our hitting bays and limited bar service. Our traditional golf properties generated revenue of \$39.1 million, exclusive of management contract reimbursements of \$13.8 million, while subject to various COVID-19 operational restrictions.

Golf continues to emerge as one of the top outdoor activities naturally conducive to social distancing practices. Our traditional golf properties produced strong results during the first quarter of 2021, highlighting the unwavering demand for traditional golf. However, restrictions on large gatherings remain in effect in the primary jurisdictions in which we operate, resulting in the postponement or cancellation of a substantial number of events, banquets and other large gatherings in our venues and courses, adversely impacting our first quarter sales of food and beverages.

COVID-19 Update

In response to the "COVID-19" global pandemic declared by the World Health Organization in March 2020, many states and localities in which we operate issued "stay at home" or "shelter in place" orders and other social distancing measures, in addition to mandatory store closures, capacity limitations and other restrictions affecting our operations. As a result, during March 2020, we temporarily closed all of our entertainment golf venues and substantially all of our traditional golf properties.

Subsequent to our closures, the gradual easing of restrictions has permitted us to safely and responsibly resume operations at both our entertainment golf venues and our traditional golf properties. Subject to locally mandated COVID-19 capacity and other limitations, three of our four Drive Shack venues and all of our traditional golf properties were safely and responsibly reopened by the end of the second quarter 2020. As of March 31, 2021, all four of our entertainment golf venues and all of our traditional golf properties were open and operating.

Our top priority remains protecting the health and safety of our employees and guests while continuing to provide a safe, fun and comfortable setting for our guests to socialize and engage in physical activities. Our entertainment golf venues and traditional golf properties are currently operating with restrictive and precautionary measures in place, including enhanced cleaning and sanitization protocols, capacity limitations in our suite style hitting bays (varying by location), social distancing measures and certain restrictions on bar and dining services (also varying by location). As an additional protective measure, the Company installed new protective dividers in between the suite style hitting bays at its entertainment golf venues. Restrictions on large group gatherings remain in effect in the majority of the jurisdictions in which we operate, which has resulted in the postponement or cancellation of the substantial majority of events, banquets and other large gatherings. The Company continues to take necessary precautions and adhere to all local laws and mandates.

As government lockdown orders have eased, we believe many Americans have been eagerly seeking a return to a sense of normalcy, and craving activities and socialization that can be enjoyed safely. Golf has emerged as one of the top activities that meet these criteria and that can offer valuable physical and mental respite during these unprecedented times. This has been evident by the continued demand for tee times at our traditional golf properties since reopening, with utilization of tee time inventory up over the prior year. Engagement in golf has strengthened across an expanded base of participants ranging from the core golfers, to lapsed golfers making their return, and families and new participants of all ages.

The Company provides two different avenues for our guests to get outdoors and safely engage in the sport of golf with our entertainment golf venues and traditional golf properties. The outdoor open-air layout of our entertainment golf venues, with defined suite style hitting bays (partitioned by new protective dividers), and the outdoor wide-open nature of our traditional golf courses provide the ideal setting for guests to connect with friends while enjoying physical activity and maintaining social distancing. Both offerings naturally limit guest overlap and, combined with enhanced safety protocols, provide a safe and comfortable setting for guests to socialize. We believe these factors to be key differentiators that will provide the Company with a competitive advantage within the leisure and entertainment industry through the COVID-19 environment.

While we have experienced strong demand for golf at both our traditional golf courses and entertainment golf venues, our total revenues, including food, beverage and event sales, have been negatively impacted by the continued restrictions on dining services and large group gatherings. We continue to seek opportunities to drive operational efficiencies and implement aggressive cost reduction and cash preservations measures to maintain and protect the financial health of the Company.

Given the continuing dynamic nature and fluidity of the pandemic, we cannot reasonably estimate the impacts of COVID-19 on our financial condition, results of operations or cash flows in the future. However, we expect COVID-19 to continue to have an adverse impact on our revenues, results of operations and cash flows in future periods. The extent of the ultimate impact will depend on the future developments that are uncertain and unpredictable, including the spread of COVID-19 and actions to contain or mitigate its impact, the timing of economic recovery, and consumer behaviors, preferences and discretionary spending, among others.

CARES Act

On March 27, 2020, Congress enacted the CARES Act to provide certain relief in response to the COVID-19 pandemic. The CARES Act includes numerous tax provisions and other stimulus measures. Among the various provisions in the CARES Act, the Company is utilizing the payroll tax deferrals offered as it continues to evaluate the applicability of other benefits.

RESULTS OF OPERATIONS

The following tables summarize our results of operations for the three months ended March 31, 2021 and 2020:

<i>(dollar amounts in thousands)</i>	Three Months Ended March 31,		Increase (Decrease)	
	2021	2020	Amount	%
Revenues				
Golf operations (A)	\$ 53,161	\$ 48,625	\$ 4,536	9.3 %
Sales of food and beverages	7,930	12,510	(4,580)	(36.6)%
Total revenues	61,091	61,135	(44)	(0.1)%
Operating costs				
Operating expenses (A)	48,870	54,367	(5,497)	(10.1)%
Cost of sales - food and beverages	2,104	3,655	(1,551)	(42.4)%
General and administrative expense	7,982	9,818	(1,836)	(18.7)%
Depreciation and amortization	6,245	6,794	(549)	(8.1)%
Pre-opening costs	556	552	4	0.7
Loss on lease terminations and impairment	3,209	792	2,417	305.2 %
Total operating costs	68,966	75,978	(7,012)	(9.2)%
Operating loss	(7,875)	(14,843)	(6,968)	(46.9)%
Other income (expenses)				
Interest and investment income	153	130	23	17.7 %
Interest expense, net	(2,626)	(2,745)	(119)	(4.3)%
Other income (loss), net	(61)	367	(428)	116.6 %
Total other income (expenses)	(2,534)	(2,248)	(286)	(12.7)%
Loss before income tax	\$ (10,409)	\$ (17,091)	\$ (6,682)	(39.1)%

(A) Includes \$13.8 million for the three months ended March 31, 2021, and \$13.3 million for the three months ended March 31, 2020, due to management contract reimbursements reported under ASC 606.

Revenues from Golf Operations

Revenues from Golf Operations comprise principally: (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 at Drive Shack 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)	
	March 31, 2021	March 31, 2020	Amount	%
Golf operations	\$ 53,161	\$ 48,625	\$ 4,536	9.3 %
<i>Percentage of total revenue</i>	<i>87.0 %</i>	<i>79.5 %</i>		

Revenues from golf operations increased by \$4.5 million primarily due to a \$5.1 million increase in traditional golf related to course re-openings after courses closed during March 2020 due to COVID-19 restrictions. This was offset by a \$0.4 million decrease in Entertainment Golf primarily due to fewer events and walk-ins from COVID-19 related restrictions.

Sales of Food and Beverages

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Sales of food and beverages	\$ 7,930	\$ 12,510	\$ (4,580)	(36.6)%
Percentage of total revenue	13.0 %	20.5 %		

Sales of food and beverages decreased by \$4.6 million, primarily due to a \$3.2 million decrease in traditional golf, and a \$1.4 million decrease in entertainment golf. The decrease in traditional golf was primarily due to the loss of tournament and large group event-related revenues due to continued COVID-19 related operational restrictions in effect. Entertainment golf decreased due to fewer customers resulting from COVID-19 restrictions.

Operating Expenses

Operating expenses consist of 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 venue-level operating expenses (including utilities, repair and maintenance, and marketing), excluding pre-opening costs, which are recorded separately. Operating expenses also include venue-level operating costs for managed courses, for which we are reimbursed.

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Operating expenses	\$ 48,870	\$ 54,367	\$ (5,497)	(10.1)%
Percentage of total revenue	80.0 %	88.9 %		

Operating expenses decreased by \$5.5 million, primarily due to a \$2.5 million decrease in traditional golf, and a \$3.1 million decrease in entertainment golf. The decrease in traditional golf was primarily due to reductions in payroll and payroll related expenses resulting from reduced staffing in response to COVID-19 that the Company has been able to maintain as restrictions have gradually eased. Entertainment golf decreased by (i) \$3.1 million due to \$2.1 million in lower payroll expenses related to COVID-19 restrictions and tighter cost structure, (ii) \$0.5 million in lower venue marketing expenses and (iii) \$0.5 million in lower other venue-level expenses.

Cost of Sales - Food and Beverages

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Cost of sales - food and beverages	\$ 2,104	\$ 3,655	\$ (1,551)	(42.4)%
Percentage of total revenue	3.4 %	6.0 %		

Cost of sales - food and beverages decreased by \$1.6 million primarily due to lower food and beverage sales in traditional golf and entertainment golf.

General and Administrative Expense (including Acquisition and Transaction Expense)

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

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
General and administrative expense	7,982	9,818	(1,836)	(18.7)%
Percentage of total revenue	13.1 %	16.1 %		

General and administrative expense decreased by \$1.8 million consisting of a \$0.8 million decrease in Traditional Golf and a \$0.8 million decrease in Entertainment Golf. The decrease across both segments is due to \$1.1 million of lower payroll and payroll-related expenses, \$0.4 million of lower support and administrative expenses, and \$0.2 million of lower marketing expenses related to reduced headcounts and tight operating cost structure.

Depreciation and Amortization

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

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Depreciation and amortization	6,245	6,794	(549)	(8.1)%
Percentage of total revenue	10.2 %	11.1 %		

Depreciation and amortization decreased by \$(0.5) million primarily due to fewer assets depreciated related to a Traditional Golf fully amortized private membership intangible and an asset impairment at a Traditional Golf property that occurred during the three months ended March 31, 2020.

Pre-Opening Costs

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

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Pre-opening costs	556	552	4	0.7 %
Percentage of total revenue	0.9 %	0.9 %		

There was no significant change in pre-opening costs.

(Gain) Loss on lease terminations and impairment

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

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Loss on lease terminations and impairment	3,209	792	2,417	305.2 %
Percentage of total revenue	5.3 %	1.3 %		

(Gain) loss on lease terminations and impairment increased by \$2.4 million primarily due to the impairment of assets related to our New York, NY corporate office totaling \$3.2 million. This includes impairment of leasehold improvements of \$0.3 million, furniture, fixtures, and equipment of \$0.6 million, and ROU assets of \$2.3 million.

Interest and Investment Income

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

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest and investment income	153	130	23	17.7 %
Percentage of total revenue	0.3 %	0.2 %		

There was no significant change in interest and investment income.

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)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Interest expense, net	(2,626)	(2,745)	(119)	(4.3)%
Percentage of total revenue	(4.3)%	(4.5)%		

Interest expense, net decreased by \$(0.1) million primarily due to a \$0.2 million decrease of interest expense capitalized into construction in progress balances associated with the opening of three entertainment golf venues in 2019, offset by a \$0.1 million increase in interest expense on the accretion of membership deposit liabilities.

Other Income (Loss), Net

Other income (loss), net, consists of gains on the sale of traditional golf properties and earnings from our equity method investment.

	Three Months Ended		Increase (Decrease)	
	March 31, 2021	March 31, 2020	Amount	%
<i>(dollar amounts in thousands)</i>				
Other income (loss), net	(61)	367	(428)	116.6 %
Percentage of total revenue	(0.1)%	0.6 %		

Other income (loss), net decreased by \$0.4 million primarily due to equity method income earned during the three months ended March 31, 2020 that was not earned during the three months ended March 31, 2021.

SEGMENT RESULTS

Entertainment Golf

<i>(in thousands)</i>	Three Months Ended		Increase (Decrease)
	March 31, 2021	March 31, 2020	Amount
Revenues			
Golf operations	3,421	3,910	\$ (489)
Sales of food and beverages	4,802	6,207	(1,405)
Total revenues	8,223	10,117	(1,894)
Total operating costs	12,138	16,557	(4,419)
Operating loss	(3,915)	(6,440)	2,525

Total revenues

The decrease in total entertainment golf revenues during the three months ended March 31, 2021 was due fewer events and customers related to COVID-19 restrictions.

Operating loss

The decrease in operating loss during the three months ended March 31, 2021 was primarily due to decreased general and administrative expenses as result of lower payroll and payroll-related expenses and marketing expenses due to COVID-19 restrictions and tight operating cost structure.

Traditional Golf

<i>(in thousands)</i>	Three Months Ended		Increase (Decrease)
	March 31, 2021	March 31, 2020	Amount
Revenues			
Golf operations	49,740	44,715	\$ 5,025
Sales of food and beverages	3,128	6,303	(3,175)
Total revenues	52,868	51,018	1,850
Total operating costs	50,355	55,950	(5,595)
Operating income (loss)	2,513	(4,932)	7,445

Total revenues

The increase in total traditional golf revenues during the three months ended March 31, 2021 was primarily due to course re-openings after courses closed during March 2020 due to COVID-19 restrictions.

Operating income (loss)

The decrease in operating income during the three months ended March 31, 2021 was primarily due to aggressive cost cutting measures, including payroll and payroll-related cost reductions that reduced total operating costs.

Corporate

<i>(in thousands)</i>	Three Months Ended		Increase (Decrease)
	March 31, 2021	March 31, 2020	Amount
Total operating costs	6,473	3,471	\$ 3,002
Operating loss	(6,473)	(3,471)	(3,002)

Operating loss

The increase in operating loss during the three and three months ended March 31, 2021 was primarily due to the impairment of assets located at our New York, NY office.

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Capital

Our primary sources of liquidity are cash and cash equivalents on hand which resulted primarily from our February 2021 equity offering and the October 2020 sale of one of our remaining owned Traditional Golf properties. The Company raised net proceeds of \$54.6 million, after the underwriters discount of \$2.9 million, through a common equity offering that closed in February 2021. Other expenses related to the offering totaled \$0.6 million. In October 2020 we closed on the sale of our Rancho San Joaquin property resulting in net cash proceeds of \$33.6 million. The proceeds generated by these transactions will be reinvested in our Entertainment Golf business and used to pay overhead expenses.

As of March 31, 2021, we had \$85.9 million of cash and cash equivalents.

Our primary cash needs are capital expenditures for developing and opening new Drive Shack and new smaller format Puttery venues, 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, and further combined with the asset sales, as discussed below, will be sufficient to meet our working capital and capital expenditure requirements for the foreseeable future.

As of March 31, 2021, we are actively exploring the capital markets to meet our medium and long-term liquidity requirements to fund planned growth, including new venue development and construction, product innovation and general corporate needs. Our financial objectives include diversifying our financing sources, optimizing the mix and maturity of new debt financings, public or private equity issuances and strategically monetizing our remaining real estate securities and other investments. We continually monitor market conditions for these financing and capital opportunities and, at any given time, may enter into or pursue one or more of the transactions described above. However, we cannot ensure that capital will be available on reasonable terms, if at all.

For a further discussion of risks that could affect our liquidity, access to capital resources and our capital obligations, see Part II, Item 1A. "Risk Factors" in this document.

Summary of Cash Flows

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

	Three Months Ended March 31,	
	2021	2020
Net cash (used in) provided by:		
Operating activities	(7,556)	(2,577)
Investing activities	(6,542)	(6,482)
Financing activities	52,848	(2,566)
Net Increase (Decrease) in Cash and Cash Equivalents, Restricted Cash and Restricted Cash, noncurrent	<u>38,750</u>	<u>(11,625)</u>

Operating Activities

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

Net cash used in operating activities was \$7.6 million for the three months ended March 31, 2021 and \$2.6 million for the three months ended March 31, 2020. Changes in operating cash flow activities are described below:

- Operating cash flows decreased due to the following:
 - \$4.7 million in our Traditional Golf operations, primarily related to an increase in rent payments, increases in vendor payments, and course employee's 2020 bonus payment;
 - \$2.9 million primarily due to additional general and administrative payments;
 - \$2.7 million in payment of annual bonuses in 2021 that were earned in 2020.
- Operating cash flows increased due to the following:
 - \$2.2 million in net operating cash flows generated from the Entertainment Golf venues;
 - \$1.9 million reduction in corporate payroll primarily due to reductions in headcount;
 - \$0.2 million reduction in interest payments associated with the junior subordinated notes due to a lower coupon rate.

Investing Activities

Cash flows provided by investing activities primarily relate to proceeds from the sales of traditional golf properties, and cash flows used in investing activities primarily consist of capital expenditures for the construction and development of Entertainment Golf venues and renovations of existing facilities.

Investing activities used \$6.5 million during the three months ended March 31, 2021 and 2020.

Capital Expenditures. Our capital expenditures for the three months ended March 31, 2021 and 2020 were \$6.5 million and \$6.6 million, respectively.

We expect our capital expenditures over the next 12 months to range between \$50 and \$60 million, depending on the Company's ability to obtain additional financing, which includes developing new Drive Shack and Puttery venues and remodeling and maintaining existing facilities.

Financing Activities

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

Financing activities provided \$52.8 million during the three months ended March 31, 2021 and used \$2.6 million during the three months ended March 31, 2020. The increase was primarily due to \$53.9 million of net proceeds from our equity raise that was completed on February 2, 2021.

Off-Balance Sheet Arrangements

There have been no significant changes to our off-balance sheet arrangements as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

CONTRACTUAL OBLIGATIONS

During the three months ended March 31, 2021, we had all of the material contractual obligations referred to in our annual report on Form 10-K for the year ended December 31, 2020.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Management's discussion and analysis of financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that could affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported amounts of revenue and expenses.

Actual results could differ from these estimates and materially impact our Consolidated Financial Statements. There have been no significant changes to our critical accounting policies as disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020. See Note 2 in Part I, Item 1 "Financial Statements" for additional information.

Recent Accounting Pronouncements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

There have been no material changes to our exposure to market risks as described in Part II, Item 7A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

ITEM 4. CONTROLS AND PROCEDURES

- (a) Disclosure Controls and Procedures. The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. The Company's disclosure controls and procedures are designed to provide reasonable assurance that information is recorded, processed, summarized and reported accurately and completely. Based on such evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of such period, the Company's disclosure controls and procedures are effective.
- (b) Changes in Internal Control Over Financial Reporting. There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fiscal quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated by reference to Part I, Item 1, Note 15: Commitments and Contingencies-Legal Contingencies.

Item 1A. Risk Factors

There were no material changes to the risk factors in our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

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

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Exhibit Description</u>
<u>2.1</u>	Separation and Distribution Agreement dated April 26, 2013, between New Residential Investment Corp. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.1, filed on May 3, 2013).
<u>2.2</u>	Separation and Distribution Agreement dated October 16, 2014, between New Senior Investment Group Inc. and the Registrant (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 2.2, filed on November 5, 2014).
<u>3.1</u>	Articles of Restatement (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.2, filed on December 8, 2016).
<u>3.2</u>	Articles Supplementary relating to the Series B Preferred Stock (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.3, filed on May 13, 2003).
<u>3.3</u>	Articles Supplementary relating to the Series C Preferred Stock (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 3.3, filed on October 25, 2005).
<u>3.4</u>	Articles Supplementary relating to the Series D Preferred Stock (incorporated by reference to the Registrant's Report on Form 8-A, Exhibit 3.1, filed on March 14, 2007).
<u>3.5</u>	Articles Supplementary of Series E Junior Participating Preferred Stock (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 3.5, filed on March 2, 2017).
<u>3.6</u>	Amended and Restated By-laws (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 3.6, filed on May 11, 2020).
<u>4.1</u>	Junior Subordinated Indenture between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.1, filed on May 4, 2009).
<u>4.2</u>	Pledge and Security Agreement between Newcastle Investment Corp. and The Bank of New York Mellon Trust Company, National Association, as trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.2, filed on May 4, 2009).
<u>4.3</u>	Pledge, Security Agreement and Account Control Agreement among Newcastle Investment Corp., NIC TP LLC, as pledgor, and The Bank of New York Mellon Trust Company, National Association, as bank and trustee, dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.3, filed on May 4, 2009).
<u>4.4</u>	Tax Benefits Preservation Plan, dated as of March 6, 2020, between Drive Shack Inc. and American Stock Transfer & Trust Company, LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 4.1, filed on March 6, 2020).
<u>10.1</u>	Termination and Cooperation Agreement, dated December 21, 2017, by and between Drive Shack Inc. and FIG LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on December 21, 2017).
<u>10.2</u>	Transition Services Agreement, dated December 21, 2017, by and between Drive Shack Inc. and FIG LLC (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.2, filed on December 21, 2017).
<u>10.3*</u>	Letter Agreement, dated December 21, 2017, by and between Drive Shack Inc. and Lawrence A. Goodfield, Jr. (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.4, filed on December 21, 2017).
<u>10.4*</u>	Amendment, dated September 28, 2020, to Letter Agreement, dated December 21, 2017, by and between Drive Shack Inc. and Lawrence A. Goodfield, Jr.
<u>10.5*</u>	Letter Agreement, dated November 7, 2018, by and between Drive Shack Inc. and Kenneth A. May (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.6, filed on March 15, 2019).
<u>10.6*</u>	Letter Agreement, dated November 7, 2018, by and between Drive Shack Inc. and David M. Hammarley (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.7, filed on March 15, 2019).
<u>10.7*</u>	Letter Agreement, dated September 27, 2020, by and between Drive Shack Inc. and Michael Nichols (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on September 28, 2020).
<u>10.8*</u>	2012 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of May 7, 2012 (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.3, filed on February 28, 2013).

Exhibit Number	Exhibit Description
10.9*	Amended and Restated 2014 Newcastle Investment Corp. Nonqualified Stock Option and Incentive Award Plan, adopted as of November 3, 2014 (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.5, filed on March 2, 2015).
10.10*	2015 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan, adopted as of April 16, 2015 (incorporated by reference to Annex A of the Registrant's definitive proxy statement for the 2015 annual meeting of stockholders filed on April 17, 2015).
10.11*	2016 Newcastle Investment Corp. Nonqualified Option and Incentive Award Plan (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on May 19, 2016).
10.12*	2017 Drive Shack Inc. Nonqualified Option and Incentive Award Plan (incorporated by reference to the Registrant's definitive proxy statement for the 2017 annual meeting of stockholders, filed on April 13, 2017).
10.13*	Drive Shack Inc. 2018 Omnibus Incentive Plan (incorporated by reference to Annex A of the Registrant's definitive proxy statement for the 2018 annual meeting of stockholders filed on April 13, 2018).
10.14	Exchange Agreement between Newcastle Investment Corp. and Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd., dated April 30, 2009 (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on May 4, 2009).
10.15	Exchange Agreement, dated as of January 29, 2010, by and among Newcastle Investment Corp., Taberna Capital Management, LLC, Taberna Preferred Funding IV, Ltd., Taberna Preferred Funding V, Ltd., Taberna Preferred Funding VI, Ltd. And Taberna Preferred Funding VII, Ltd. (incorporated by reference to the Registrant's Current Report on Form 8-K, Exhibit 10.1, filed on February 1, 2010).
10.16	Form of Indemnification Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.19, filed on August 8, 2014).
10.17*	Form of Drive Shack Inc. 2018 Omnibus Incentive Plan Director Restricted Stock Unit Award Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.15, filed on November 9, 2018).
10.18*	Non-Qualified Stock Option Award Agreement dated November 12, 2018, by and between Drive Shack Inc. and Kenneth A. May (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.18, filed on March 15, 2019).
10.19*	Incentive Stock Option Award Agreement dated November 12, 2018, by and between Drive Shack Inc. and Kenneth A. May (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.19, filed on March 15, 2019).
10.20*	Non-Qualified Stock Option Award Agreement dated November 12, 2018, by and between Drive Shack Inc. and David M. Hammarley (incorporated by reference to the Registrant's Annual Report on Form 10-K, Exhibit 10.20, filed on March 15, 2019).
10.21*	Form of Drive Shack Inc. 2018 Omnibus Incentive Plan Executive Non-Qualified Stock Option Award Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.22, filed on May 10, 2019).
10.22*	Form of Drive Shack Inc. 2018 Omnibus Incentive Plan Restricted Stock Unit Award Agreement (incorporated by reference to the Registrant's Quarterly Report on Form 10-Q, Exhibit 10.23, filed on August 6, 2019).
31.1	Certification of Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2021, formatted in iXBRL (Inline eXtensible Business Reporting Language): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Operations; (iii) Consolidated Statements of Comprehensive Loss; (iv) Consolidated Statements of Changes in Equity; (v) Consolidated Statements of Cash Flows; and (vi) Notes to Consolidated Financial Statements.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

* Management contract or compensatory plan or arrangement.

SIGNATURES

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

DRIVE SHACK INC.

By: /s/ Hana Khouri
Hana Khouri
Chief Executive Officer and President

May 10, 2021

By: /s/ Michael Nichols
Michael Nichols
Chief Financial Officer

May 10, 2021

By: /s/ Lawrence A. Goodfield, Jr.
Lawrence A. Goodfield, Jr.
Chief Accounting Officer and Treasurer

May 10, 2021

EXHIBIT 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Hana Khouri, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Drive Shack Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2021

/s/ Hana Khouri
Hana Khouri
Chief Executive Officer and President

EXHIBIT 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael Nichols, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Drive Shack Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

May 10, 2021

/s/ Michael Nichols

Michael Nichols
Chief Financial Officer

EXHIBIT 32.1

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

In connection with the Quarterly Report on Form 10-Q of Drive Shack Inc. (the "Company") for the quarterly period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Hana Khouri as Chief Executive Officer and President of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of her knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Hana Khouri

Hana Khouri
Chief Executive Officer and President

May 10, 2021

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

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

In connection with the Quarterly Report on Form 10-Q of Drive Shack Inc. (the "Company") for the quarterly period ended March 31, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Michael Nichols, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Michael Nichols

Michael Nichols
Chief Financial Officer

May 10, 2021

This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.