

Great Wolf Resorts, Inc.  
Form 10-Q  
May 08, 2007

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

**(Mark One)**

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

**For the quarterly period ended March 31, 2007**

**OR**

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

**Commission File Number 000-51064**

**GREAT WOLF RESORTS, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

*(State or other jurisdiction of incorporation or  
organization)*

**51-0510250**

*(I.R.S. Employer Identification No.)*

**122 West Washington Avenue**

**Madison, Wisconsin 53703**

*(Address of principal executive offices)*

**53703**

*(Zip Code)*

**(608) 661-4700**

*(Registrant's telephone number, including area code)*

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The number of shares outstanding of the issuer's common stock was 30,680,819 as of May 8, 2007.

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For the Quarter Ended March 31, 2007  
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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share amounts)**

|                                                                                | <b>March 31,<br/>2007<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2006</b> |
|--------------------------------------------------------------------------------|-------------------------------------------|----------------------------------|
| <b>ASSETS</b>                                                                  |                                           |                                  |
| Current assets:                                                                |                                           |                                  |
| Cash and cash equivalents                                                      | \$ 62,718                                 | \$ 96,778                        |
| Accounts receivable, net of allowance for doubtful accounts of \$100 and \$205 | 2,128                                     | 2,680                            |
| Accounts receivable affiliates                                                 | 1,491                                     | 2,223                            |
| Inventory                                                                      | 3,403                                     | 2,825                            |
| Other current assets                                                           | 6,593                                     | 4,638                            |
| <br>Total current assets                                                       | <br>76,333                                | <br>109,144                      |
| Property and equipment, net                                                    | 524,405                                   | 489,968                          |
| Investment in affiliates                                                       | 24,931                                    | 25,028                           |
| Other assets                                                                   | 26,926                                    | 19,450                           |
| Other intangible assets                                                        | 23,829                                    | 23,829                           |
| Goodwill                                                                       | 16,020                                    | 16,020                           |
| <br>Total assets                                                               | <br>\$ 692,444                            | <br>\$ 683,439                   |
| <b>LIABILITIES AND STOCKHOLDERS EQUITY</b>                                     |                                           |                                  |
| Current liabilities:                                                           |                                           |                                  |
| Current portion of long-term debt                                              | \$ 1,444                                  | \$ 1,432                         |
| Accounts payable                                                               | 22,156                                    | 25,882                           |
| Accrued payroll                                                                | 1,391                                     | 2,768                            |
| Accrued expenses                                                               | 13,706                                    | 12,740                           |
| Accrued expenses affiliates                                                    | 378                                       | 443                              |
| Advance deposits                                                               | 10,879                                    | 7,165                            |
| Gift certificates payable                                                      | 2,947                                     | 3,349                            |
| <br>Total current liabilities                                                  | <br>52,901                                | <br>53,779                       |
| Mortgage debt                                                                  | 288,982                                   | 275,711                          |
| Other long-term debt                                                           | 12,044                                    | 12,246                           |
| Other long-term liabilities                                                    | 391                                       | 391                              |
| Deferred tax liability                                                         | 14,923                                    | 15,846                           |
| Deferred compensation liability                                                | 2,353                                     | 2,200                            |
| <br>Total liabilities                                                          | <br>371,594                               | <br>360,173                      |

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|                                                                                                                                                                                |            |            |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|------------|
| Minority interest                                                                                                                                                              | 5,296      | 5,757      |
| Commitments and contingencies                                                                                                                                                  |            |            |
| Stockholders' equity:                                                                                                                                                          |            |            |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 30,604,607 and 30,509,320 shares, issued and outstanding, at March 31, 2007 and December 31, 2006, respectively | 306        | 305        |
| Additional paid in capital                                                                                                                                                     | 396,958    | 396,909    |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding                                                                               |            |            |
| Accumulated deficit                                                                                                                                                            | (79,510)   | (77,505)   |
| Deferred compensation                                                                                                                                                          | (2,200)    | (2,200)    |
| Total stockholders' equity                                                                                                                                                     | 315,554    | 317,509    |
| Total liabilities and stockholders' equity                                                                                                                                     | \$ 692,444 | \$ 683,439 |

See accompanying notes to condensed consolidated financial statements.

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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited; dollars in thousands, except per share data)

|                                                                                                   | <b>Three months ended<br/>March 31,</b> |             |
|---------------------------------------------------------------------------------------------------|-----------------------------------------|-------------|
|                                                                                                   | <b>2007</b>                             | <b>2006</b> |
| Revenues:                                                                                         |                                         |             |
| Rooms                                                                                             | \$ 28,872                               | \$ 22,687   |
| Food and beverage                                                                                 | 7,790                                   | 5,771       |
| Other hotel operations                                                                            | 6,984                                   | 5,521       |
| Management and other fees                                                                         | 607                                     | 148         |
| Management and other fees related parties                                                         | 1,171                                   | 727         |
|                                                                                                   | 45,424                                  | 34,854      |
| Other revenue from managed properties                                                             | 3,035                                   | 2,982       |
| Total revenues                                                                                    | 48,459                                  | 37,836      |
| Operating expenses by department:                                                                 |                                         |             |
| Rooms                                                                                             | 4,155                                   | 2,997       |
| Food and beverage                                                                                 | 6,653                                   | 4,871       |
| Other                                                                                             | 5,712                                   | 4,327       |
| Other operating expenses:                                                                         |                                         |             |
| Selling, general and administrative                                                               | 13,122                                  | 11,650      |
| Property operating costs                                                                          | 7,883                                   | 4,877       |
| Depreciation and amortization                                                                     | 8,644                                   | 6,098       |
| Loss on sale of property                                                                          |                                         | 578         |
|                                                                                                   | 46,169                                  | 35,398      |
| Other expenses from managed properties                                                            | 3,035                                   | 2,982       |
| Total operating expenses                                                                          | 49,204                                  | 38,380      |
| Net operating loss                                                                                | (745)                                   | (544)       |
| Interest income                                                                                   | (1,155)                                 | (683)       |
| Interest expense                                                                                  | 3,693                                   | 1,862       |
| Loss before income taxes, minority interests, and equity in earnings of unconsolidated affiliates | (3,283)                                 | (1,723)     |
| Income tax benefit                                                                                | (1,026)                                 | (675)       |
| Minority interests, net of tax                                                                    | (316)                                   | (14)        |
| Equity in (earnings) loss of unconsolidated affiliates, net of tax                                | 64                                      | (89)        |
| Net loss                                                                                          | \$ (2,005)                              | \$ (945)    |

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|                                             |    |            |    |            |
|---------------------------------------------|----|------------|----|------------|
| Net loss per share-basic                    | \$ | (0.07)     | \$ | (0.03)     |
| Net loss per share-diluted                  | \$ | (0.07)     | \$ | (0.03)     |
| Weighted average common shares outstanding: |    |            |    |            |
| Basic                                       |    | 30,426,130 |    | 30,147,896 |
| Diluted                                     |    | 30,426,130 |    | 30,147,896 |

See accompanying notes to the condensed consolidated financial statements.

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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited; dollars in thousands)**

|                                                                                 | <b>Three months ended</b> |             |
|---------------------------------------------------------------------------------|---------------------------|-------------|
|                                                                                 | <b>March 31,</b>          |             |
|                                                                                 | <b>2007</b>               | <b>2006</b> |
| Operating activities:                                                           |                           |             |
| Net loss                                                                        | \$ (2,005)                | \$ (945)    |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                           |             |
| Depreciation and amortization                                                   | 8,644                     | 6,098       |
| Non-cash employee compensation expense                                          | 629                       | 796         |
| Loss on sale of property                                                        |                           | 578         |
| Equity in earnings (loss) of unconsolidated affiliates                          | 94                        | (148)       |
| Minority interests                                                              | (461)                     | (24)        |
| Deferred tax benefit                                                            | (911)                     | (606)       |
| Changes in operating assets and liabilities:                                    |                           |             |
| Accounts receivable and other assets                                            | (1,816)                   | 2,913       |
| Accounts payable, accrued expenses and other liabilities                        | 155                       | (2,790)     |
| Net cash provided by operating activities                                       | 4,329                     | 5,872       |
| Investing activities:                                                           |                           |             |
| Capital expenditures for property and equipment                                 | (43,592)                  | (25,574)    |
| Cash distributions from unconsolidated affiliates                               |                           | 18,816      |
| Investment in affiliates                                                        |                           | (357)       |
| Investment in development                                                       | (8,571)                   |             |
| Proceeds from sale of assets                                                    |                           | 1,540       |
| Increase in restricted cash                                                     | (19)                      | (977)       |
| Increase (decrease) in escrows                                                  | 638                       | (379)       |
| Net cash used in investing activities                                           | (51,544)                  | (6,931)     |
| Financing activities:                                                           |                           |             |
| Principal payments on long-term debt                                            | (348)                     | (510)       |
| Proceeds from issuance of long-term debt                                        | 13,503                    | 3,580       |
| Net cash provided by financing activities                                       | 13,155                    | 3,070       |
| Net increase (decrease) in cash and cash equivalents                            | (34,060)                  | 2,011       |
| Cash and cash equivalents, beginning of period                                  | 96,778                    | 54,782      |
| Cash and cash equivalents, end of period                                        | \$ 62,718                 | \$ 56,793   |

Supplemental Cash Flow Information-



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|                                                     |          |          |
|-----------------------------------------------------|----------|----------|
| Cash paid for interest, net of capitalized interest | \$ 3,377 | \$ 1,681 |
| Cash paid for income taxes                          | \$ 147   | \$ 192   |
| Non-cash items:                                     |          |          |
| Construction in process accruals                    | \$ 895   | \$ 5,846 |

See accompanying notes to the condensed consolidated financial statements.

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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited, dollars in thousands, except per share amounts)

**1. ORGANIZATION**

The terms Great Wolf Resorts, us, we and our are used in this report to refer to Great Wolf Resorts, Inc.

**Business Summary**

We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to 400 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge and Blue Harbor Resort brand names. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms, which includes admission to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, an ice cream shop and confectionery, full-service spa, game arcade, gift shop and meeting space. We also generate revenues from licensing arrangements, management fees and other fees with respect to properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of operating resorts and resorts under construction. As of March 31, 2007, we operate eight Great Wolf Lodge resorts (our signature northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

|                                    | <b>Ownership<br/>Percentage</b> | <b>Opening</b> | <b>Guest<br/>Suites</b> | <b>Condo<br/>Units</b> | <b>Indoor<br/>Entertainment<br/>Area(1)<br/>(Approx. ft<sup>2</sup>)</b> |
|------------------------------------|---------------------------------|----------------|-------------------------|------------------------|--------------------------------------------------------------------------|
| <b>Existing Resorts:</b>           |                                 |                |                         |                        |                                                                          |
| Wisconsin Dells, WI (2)            | 30%                             | 1997           | 309                     | 77                     | 102,000                                                                  |
| Sandusky, OH (2)                   | 30%                             | 2001           | 271                     |                        | 41,000                                                                   |
| Traverse City, MI                  | 100%                            | 2003           | 281                     |                        | 51,000                                                                   |
| Kansas City, KS                    | 100%                            | 2003           | 281                     |                        | 49,000                                                                   |
| Sheboygan, WI                      | 100%                            | 2004           | 182                     | 64                     | 54,000                                                                   |
| Williamsburg, VA                   | 100%                            | 2005           | 405(3)                  |                        | 78,000                                                                   |
| Pocono Mountains, PA               | 100%                            | 2005           | 401                     |                        | 91,000                                                                   |
| Niagara Falls, ONT (4)             |                                 | 2006           | 406                     |                        | 94,000                                                                   |
| Mason, OH (5)                      | 84%                             | 2006           | 401                     |                        | 93,000                                                                   |
| <b>Resorts Under Construction:</b> |                                 |                |                         |                        |                                                                          |
| Grapevine, TX(6)                   | 100%                            | Late<br>2007   | 404                     |                        | 98,000                                                                   |
| Grand Mound, WA(7)                 | 49%                             | Early<br>2008  | 398                     |                        | 78,000                                                                   |

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- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room and fitness room, as well as our Aveda spa in the resorts that have such amenities.
  
- (2) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 70% interest in the joint venture, and we have a 30% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture under long-term agreements, subject to earlier termination in certain situations.
  
- (3) Construction for the expansion of 104 additional guest suites, conference center space and

waterpark attractions began in May 2006.

The additional waterpark attractions were completed in December 2006.

The additional guest suites were completed in March 2007. We expect to complete the conference center space in Summer 2007.

- (4) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016. We manage the resort on behalf of Ripley and also provide central reservation services.
  
- (5) We entered into a joint venture agreement with a subsidiary of CBS Corporation (CBS), to build this resort and attached conference center. We operate the resort

under our Great Wolf Lodge brand and have a majority of the equity in the project. CBS has a minority equity interest in the resort. This resort opened in December 2006 and the conference center was completed in March 2007.

- (6) We are developing a Great Wolf Lodge resort in Grapevine, Texas. The northwoods themed, eight-story resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort began in June 2006 with expected completion in late 2007.
- (7) We have entered into a joint venture agreement with The Confederated Tribes of the Chehalis Reservation (Chehalis) to

build this resort. We will operate the resort under our Great Wolf Lodge brand. Chehalis will lease the land needed for the resort to the joint venture, and they will have a majority equity interest in the joint venture. Construction on the resort began in October 2006 with expected completion in early 2008.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General* We have prepared these unaudited interim financial statements according to the rules and regulations of the Securities and Exchange Commission. Accordingly, we have omitted certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the financial statements, accompanying notes and other information included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the financial condition and results of operations and cash flows for the periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our actual results could differ from those estimates. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

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*Principles of Consolidation* Our consolidated financial statements include our accounts and the accounts of all of our majority owned subsidiaries. As part of our consolidation process, we eliminate all significant intercompany balances and transactions.

*Investment in Affiliates* We use the equity method to account for our investments in unconsolidated joint ventures, as we do not have a controlling interest. Net income or loss is allocated between the partners in the joint ventures based on the hypothetical liquidation at book value method (HLBV). Under the HLBV method, net income or loss is allocated between the partners based on the difference between each partner's claim on the net assets of the partnership at the end and beginning of the period, after taking into account contributions and distributions. Each partner's share of the net assets of the partnership is calculated as the amount that the partner would receive if the partnership were to liquidate all of its assets at net book value and distribute the resulting cash to creditors and partners in accordance with their respective priorities.

*Minority Interest* We record the non-owned equity interests of our consolidated subsidiaries as minority interests on our consolidated balance sheets. The minority ownership interest of our earnings or loss, net of tax, is classified as Minority interests in our Condensed Consolidated Statements of Operations.

*Income Taxes* At the end of each interim reporting period, we estimate the effective tax rate expected to be applicable for the full fiscal year. The rate determined is used in providing for income taxes on a year-to-date basis.

*Segments* We are organized into a single operating division. Within that operating division, we have three reportable segments in 2007:

resort ownership/operation-revenues derived from our consolidated owned resorts;

resort third-party management-revenues derived from management, license and other related fees from unconsolidated managed resorts; and

condominium sales-revenues derived from sales of condominium units to third-party owners.

We evaluate the performance of each segment based on earnings before interest, income taxes, and depreciation and amortization (EBITDA), excluding minority interests and equity in earnings of unconsolidated affiliates. The following summarizes significant financial information regarding our segments:

|                                                                                                   | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-<br/>Party<br/>Management</b> | <b>Condominium<br/>Sales</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|---------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------------------------------------|------------------------------|--------------|------------------------------------------------|
| <b>Three months ended</b>                                                                         |                                            |                                                   |                              |              |                                                |
| <b>March 31, 2007</b>                                                                             |                                            |                                                   |                              |              |                                                |
| Revenues                                                                                          | \$ 43,646                                  | \$ 4,813                                          | \$                           | \$           | \$ 48,459                                      |
| EBITDA, excluding certain items                                                                   | 8,422                                      | 1,778                                             |                              | (2,301)      | \$ 7,899                                       |
| Depreciation and amortization                                                                     | (8,489)                                    |                                                   |                              | (155)        | (8,644)                                        |
| Interest expense, net                                                                             |                                            |                                                   |                              |              | (2,538)                                        |
| Loss before income taxes, minority interests, and equity in earnings of unconsolidated affiliates |                                            |                                                   |                              |              | \$ (3,283)                                     |
| Additions to long-lived assets                                                                    | 43,323                                     |                                                   |                              | 269          | \$ 43,592                                      |
| Total assets                                                                                      | 555,532                                    | 1,976                                             |                              | 134,936      | \$ 692,444                                     |





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|                                                                                                     | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-<br/>Party<br/>Management</b> | <b>Condominium<br/>Sales</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------|---------------------------------------------------|------------------------------|--------------|------------------------------------------------|
| <b>Three months ended<br/>March 31, 2006</b>                                                        |                                            |                                                   |                              |              |                                                |
| Revenues                                                                                            | \$ 33,979                                  | \$ 3,857                                          | \$                           | \$           | \$ 37,836                                      |
| EBITDA, excluding certain items                                                                     | 8,103                                      | 875                                               |                              | (3,424)      | \$ 5,554                                       |
| Depreciation and amortization                                                                       | (5,995)                                    |                                                   |                              | (103)        | (6,098)                                        |
| Interest expense, net                                                                               |                                            |                                                   |                              |              | (1,179)                                        |
| Loss before income taxes,<br>minority interests, and equity in<br>loss of unconsolidated affiliates |                                            |                                                   |                              |              | \$ (1,723)                                     |
| Additions to long-lived assets                                                                      | 25,452                                     |                                                   |                              | 122          | \$ 25,574                                      |
| Total assets                                                                                        | 481,895                                    | 4,137                                             |                              | 116,512      | \$ 602,544                                     |

The Other items in the table above represent corporate-level activities that do not constitute a reportable segment. Total assets at the corporate level primarily consist of cash, our investment in affiliates, and intangibles. Goodwill is included in our resort ownership/operation segment.

*Recent Accounting Pronouncements* In July 2006, the FASB issued Financial Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. All of the tax years since the date of our IPO are open in all jurisdictions. Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense. We believe that we have appropriate support for the income tax positions taken and to be taken on our tax returns and that our accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of \$978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 U.S. Federal income tax return related to transaction costs from our IPO. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year.

In September 2006, the FASB issued Statement of Financial Accounting Standards 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of this statement.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at

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each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. We are currently evaluating the impact of the adoption of this statement.

**3. SHARE-BASED COMPENSATION**

Effective January 1, 2006, we adopted Statement of Financial Accounting Standards 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified prospective application transition method. Before we adopted SFAS 123(R), we accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. Other than for the expense related to our deferred compensation shares and our non-vested shares, no share-based employee compensation cost has been reflected in net income prior to January 1, 2006.

We recognized \$629 and \$796, net of estimated forfeitures, in share-based compensation expense for the three months ended March 31, 2007 and 2006, respectively. The total income tax benefit recognized related to share-based compensation was \$256 and \$318 for the three months ended March 31, 2007 and 2006, respectively. We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the requisite service period of each award recipient. As of March 31, 2007, total unrecognized compensation cost related to share-based compensation awards was \$4,035, which we expect to recognize over a weighted average period of approximately 2.8 years.

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,740 options, stock appreciation rights or shares of our common stock to employees and directors. At March 31, 2007, there were 1,688,486 shares available for future grants under the Plan.

We anticipate having to issue new shares of our common stock for stock option exercises.

*Stock Options*

We have granted non-qualified stock options to purchase our common stock under the Plan at prices equal to the fair market value of the common stock on the grant dates. The exercise price for certain options granted under the plans may be paid in cash, shares of common stock or a combination of cash and shares. Stock options expire ten years from the grant date and vest ratably over three years.

We recorded stock option expense of \$459 and \$482 for the three months ended March 31, 2007 and 2006, respectively. There were no stock options granted during the three months ended March 31, 2007 or 2006.

A summary of stock option activity during the three months ended March 31, 2007 is:

|                                    | Shares    | Weighted<br>Average<br>Exercise<br>Price | Weighted<br>Average<br>Remaining<br>Contractual<br>Life |
|------------------------------------|-----------|------------------------------------------|---------------------------------------------------------|
| Number of shares under option:     |           |                                          |                                                         |
| Outstanding at beginning of period | 1,064,500 | \$ 17.55                                 |                                                         |
| Granted                            |           |                                          |                                                         |
| Exercised                          |           |                                          |                                                         |
| Forfeited                          | (833)     | \$ 15.16                                 |                                                         |
| Outstanding at end of period       | 1,063,667 | \$ 17.55                                 | 7.79 years                                              |
| Exercisable at end of period       | 702,514   | \$ 17.62                                 | 7.75 years                                              |

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There was no intrinsic value for our outstanding or exercisable stock options at March 31, 2007 and 2006.

*Market Condition Share Awards*

Certain officers and key employees are eligible to receive shares of our common stock in payment of market condition share awards granted to them in accordance with the terms thereof.

We granted 215,592 and 81,820 market condition share awards during the three months ended March 31, 2007 and 2006, respectively. We recorded share based expense of \$160 and \$85 for the three months ended March 31, 2007 and 2006, respectively.

Of the 2007 market condition shares awards granted:

53,006 are based on our common stock's performance in 2007 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. These shares vest ratably over a three-year period, 2007-2009. The per share fair value of these market condition shares was \$7.25.

The fair value of these market condition shares was determined using a Monte Carlo simulation and the following assumptions:

|                                                         |        |
|---------------------------------------------------------|--------|
| Dividend yield                                          |        |
| Weighted average, risk free interest rate               | 5.05%  |
| Expected stock price volatility                         | 42.13% |
| Expected stock price volatility (small-cap stock index) | 16.64% |

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the one-year T-bill rate. Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date. The expected stock price volatility for the small cap stock index was estimated using daily returns data for a two-year period ending on the grant date.

81,293 are based on our common stock's absolute performance during the three-year period 2007-2009. Half of these shares vest on December 31, 2009, and the other half vest on December 31, 2010. The per share fair value of these market condition shares was \$6.65.

The fair value of these market condition shares was determined using a Monte Carlo simulation and the following assumptions:

|                                           |        |
|-------------------------------------------|--------|
| Dividend yield                            |        |
| Weighted average, risk free interest rate | 4.73%  |
| Expected stock price volatility           | 42.13% |

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the four-year T-bill rate. Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date.

81,293 are based on our common stock's performance in 2007-2009 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. Half of these shares vest on

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December 31, 2009, and the other half vest on December 31, 2010. The per share fair value of these market condition shares was \$8.24.

The fair value of these market condition shares was determined using a Monte Carlo simulation and the following assumptions:

|                                                         |        |
|---------------------------------------------------------|--------|
| Dividend yield                                          |        |
| Weighted average, risk free interest rate               | 4.73%  |
| Expected stock price volatility                         | 42.13% |
| Expected stock price volatility (small-cap stock index) | 16.64% |

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the four-year T-bill rate. Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date. The expected stock price volatility for the small cap stock index was estimated using daily returns data for a two-year period ending on the grant date.

Of the 2006 market condition shares awards granted:

81,820 were based on our common stock's performance in 2006 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. The per share fair value of these market condition shares was \$5.76.

The fair value of the market condition shares was determined using a Monte Carlo simulation and the following assumptions:

|                                                           |        |
|-----------------------------------------------------------|--------|
| Dividend yield                                            |        |
| Weighted average, risk free interest rate                 | 4.12%  |
| Expected stock price volatility (peer group of companies) | 31.00% |
| Expected stock price volatility (small-cap stock index)   | 17.50% |

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the one year T-bill rate. Our expected stock price volatility was estimated using daily returns data for the three-year period ending on the grant date for peer group companies. The expected stock price volatility for the small cap stock index was estimated using three-year return averages.

Based on our common stock performance in 2006, employees earned and were issued 81,820 market condition shares in February 2007.

*Performance Share Awards*

Certain officers and key employees are eligible to receive shares of our common stock in payment of performance share awards granted to them in accordance with the terms thereof. We granted 23,149 and 27,273 performance shares during the three months ended March 31, 2007 and 2006, respectively. Grantees of performance shares are eligible to receive shares of our common stock based on the achievement of certain individual and departmental performance criteria during the calendar year. We recorded share based compensation expense of \$25 and \$55 for the three months ended March 31, 2007 and 2006, respectively. The per share fair value of performance shares granted during the three months ended March 31, 2007 and 2006, was \$13.10 and \$11.03, respectively, which represents the fair value of our common stock on the grant date.

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Based on our achievement of certain individual and departmental performance goals, employees earned and were issued 17,949 performance shares in February 2007. As a result, we recorded a reduction in expense of \$103 during the three months ended March 31, 2007 related to the shares not issued.

*Deferred Compensation Awards*

Pursuant to their employment arrangements, certain executives received bonuses upon completion of the IPO. Executives receiving bonus payments totaling \$2,200 elected to defer those payments pursuant to our deferred compensation plan. To satisfy this obligation, we contributed 129,412 shares of our common stock to the trust that holds the assets to pay obligations under our deferred compensation plan. The fair value of that stock at the date of contribution was \$2,200. In accordance with the provisions of EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we have recorded the fair value of the shares of common stock, at the date the shares were contributed to the trust, as a reduction of our stockholders' equity. Also, as prescribed by EITF Issue No. 97-14, we account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded share based compensation expense (revenue) of (\$94) and \$166, for the three months ended March 31, 2007 and 2006, respectively.

*Non-vested Shares*

We have granted non-vested shares to certain employees and our directors. Shares vest ratably over various periods up to five years from the grant date. We valued the non-vested shares at the closing market value of our common stock on the date of grant.

A summary of non-vested shares activity for the three months ended March 31, 2007 is as follows:

|                                                  | Shares   | Weighted<br>Average<br>Grant<br>Date<br>Fair Value | Aggregate<br>Intrinsic<br>Value |
|--------------------------------------------------|----------|----------------------------------------------------|---------------------------------|
| Non-vested shares balance at beginning of period | 245,000  |                                                    |                                 |
| Granted                                          | 42,078   | \$ 13.18                                           |                                 |
| Forfeited                                        | (5,000)  |                                                    |                                 |
| Vested                                           | (38,000) | \$ 11.60                                           |                                 |
| Non-vested shares balance at end of period       | 244,078  | \$ 11.81                                           | \$ 408                          |

We recorded share based expense of \$182 and \$8 for the three months ended March 31, 2007 and 2006, respectively.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

|                                   | March 31,<br>2007 | December<br>31,<br>2006 |
|-----------------------------------|-------------------|-------------------------|
| Land and improvements             | \$ 38,058         | \$ 38,058               |
| Building and improvements         | 214,373           | 178,464                 |
| Furniture, fixtures and equipment | 247,762           | 243,991                 |
| Construction in process           | 75,055            | 71,848                  |
|                                   | 575,248           | 532,361                 |
| Less accumulated depreciation     | (50,843)          | (42,393)                |

|                             |            |            |
|-----------------------------|------------|------------|
| Property and equipment, net | \$ 524,405 | \$ 489,968 |
|-----------------------------|------------|------------|

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Depreciation expense was \$8,450 and \$6,344 for the three months ended March 31, 2007 and 2006, respectively.

**5. LONG-TERM DEBT**

Long-term debt consists of the following:

|                                         | <b>March 31,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|-----------------------------------------|---------------------------|----------------------------------|
| Long-Term Debt:                         |                           |                                  |
| Traverse City/Kansas City mortgage loan | \$ 72,477                 | \$ 72,801                        |
| Mason construction loan                 | 69,221                    | 55,792                           |
| Pocono Mountains mortgage loan          | 97,000                    | 97,000                           |
| Junior subordinated debentures          | 51,550                    | 51,550                           |
| Other Debt:                             |                           |                                  |
| City of Sheboygan bonds                 | 8,402                     | 8,383                            |
| City of Sheboygan loan                  | 3,820                     | 3,863                            |
|                                         | 302,470                   | 289,389                          |
| Less current portion of long-term debt  | (1,444)                   | (1,432)                          |
| Total long-term debt                    | \$ 301,026                | \$ 287,957                       |

*Traverse City/Kansas City Mortgage Loan* This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants, including a minimum debt service coverage ratio, representing the combined EBITDA (adjusted for non-recurring items, unusual items, infrequent items and asset impairment charges) minus 4% of the revenues of two resorts divided by their combined annual interest expense and principal amortization. The loan also has customary prohibitions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at March 31, 2007.

*Mason Construction Loan* In December 2005 we closed on a \$76,800 loan to construct the Great Wolf Lodge in Mason, Ohio. The loan is secured by a first mortgage on the Mason, Ohio property and matures in December 2008. The loan also has two one-year extensions after the initial 3-year term available at our option. The lenders have a construction and debt service guaranty from us. In conjunction with the debt service guaranty, we must maintain a maximum ratio of long-term debt minus cash divided by consolidated trailing twelve month adjusted EBITDA of 6.50x and a minimum tangible net worth of \$200,000 or greater. The construction guaranty expired at the opening date of the resort and the debt service guaranty expires once the resort achieves a trailing cash flow threshold. The loan bears interest at a floating rate of 30 day LIBOR plus a spread of 265 basis points (total rate of 7.97% as of March 31, 2007). The loan is interest only during the initial three-year term and then is subject to a 25-year amortization schedule in the extension years. The loan has customary covenants associated with an individual mortgaged property. There are no prohibitions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at March 31, 2007.

*Pocono Mountains Mortgage Loan* In December 2006 we closed on a \$97,000 first mortgage loan secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures December 1, 2016. The loan is interest only for the initial 18-month period and thereafter is subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary prohibitions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at March 31, 2007.



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*Junior Subordinated Debentures* In March 2005 we completed a private offering of \$50,000 of trust preferred securities (TPS) through Great Wolf Capital Trust I (the Trust), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.80% through March 2015 and then floats at LIBOR + 310 basis points thereafter. The securities mature in March 2035 and are callable at no premium after March 2010. In addition, we invested \$1,500 in the Trust's common securities, representing 3% of the total capitalization of the Trust.

The Trust used the proceeds of the offering and our investment to purchase from us \$51,550 of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The costs of the trust preferred offering totaled \$1,600, including \$1,500 of underwriting commissions and expenses and \$100 of costs incurred directly by the Trust. The Trust paid these costs utilizing an investment from us. These costs are being amortized over a 30-year period. The proceeds from our debenture sale, net of the costs of the trust preferred offering and our investment in the Trust, were \$48,400. We used the net proceeds to retire the Pocono Mountains construction loan.

As a result of the issuance of FASB Interpretation No. 46R, Consolidation of Variable Interest Entities and the accounting profession's application of the guidance provided by the FASB, issue trusts, like the Trust, are generally variable interest entities. We have determined that we are not the primary beneficiary under the Trust, and accordingly we do not include the financial statements of the Trust in our consolidated financial statements.

Based on the foregoing accounting authority, our consolidated financial statements present the debentures issued to the Trust as long-term debt. Our investment in the Trust is accounted as a cost investment and is included in other assets. For financial reporting purposes, we record interest expense on the corresponding debentures in our consolidated statements of operations.

*City of Sheboygan Bonds* The City of Sheboygan (the City) bonds represent the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In accordance with the provisions of EITF Issue No. 91-10, we have recognized as a liability the obligations for the BANs. The notes bear interest at an annual rate of 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of BANs or other funds appropriated by the City for the payment of interest on the BANs and (b) the proceeds to be delivered from the issuance and sale of securities by the City. We have an obligation to fund payment of these BANs. Our obligation to fund repayment of the notes will be satisfied by certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028.

*City of Sheboygan Loan* The City of Sheboygan loan amount represents a loan made by the City in 2004 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. The loan is noninterest bearing and matures in 2018. Our obligation to repay the loan will be satisfied by certain minimum guaranteed amounts of real and personal property tax payments to be made by the Blue Harbor Resort through 2018.

*Future Maturities* Future principal requirements on long-term debt are as follows:

|            |                              |
|------------|------------------------------|
|            | <b>Through<br/>March 31,</b> |
| 2008       | \$ 1,444                     |
| 2009       | 2,285                        |
| 2010       | 2,810                        |
| 2011       | 72,228                       |
| 2012       | 3,195                        |
| Thereafter | 220,508                      |
| Total      | \$ 302,470                   |

**Table of Contents****6. EARNINGS PER SHARE**

We calculate our basic earnings per common share by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding. Our diluted earnings per common share assumes the issuance of common stock for all potentially dilutive stock equivalents outstanding using the treasury stock method. In periods in which we incur a net loss, we exclude potentially dilutive stock equivalents from the computation of diluted weighted average shares outstanding as the effect of those potentially dilutive items is anti-dilutive.

The trust that holds the assets to pay obligations under our deferred compensation plan has 129,412 shares of our common stock. In accordance with the provisions of EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we treat those shares of common stock as treasury stock for purposes of our earnings per share computations and therefore we exclude them from our basic and diluted earnings per share calculations. Basic and diluted earnings per common share are as follows:

|                                                    | Three months ended<br>March 31, |            |
|----------------------------------------------------|---------------------------------|------------|
|                                                    | 2007                            | 2006       |
| Net income (loss) attributable to common shares    | \$ (2,005)                      | \$ (945)   |
| Weighted average common shares outstanding basic   | 30,426,130                      | 30,147,896 |
| Weighted average common shares outstanding diluted | 30,426,130                      | 30,147,896 |
| Net income (loss) per share basic                  | \$ (0.07)                       | \$ (0.03)  |
| Net income (loss) per share diluted                | \$ (0.07)                       | \$ (0.03)  |

Options to purchase 1,048,500 and 1,262,668 shares of common stock were not included in the computations of diluted earnings per share for the three months ended March 31, 2007, and 2006, respectively, because the exercise prices for the options were greater than the average market price of the common shares during that period. There were 238,741 and 109,096 shares of common stock that were not included in the computation of diluted earnings per share for the three months ended March 31, 2007, and 2006, respectively, because the market and/or performance criteria related to these shares had not been met.

**7. SUBSEQUENT EVENTS**

On May 8, 2007, we announced plans to proceed with construction of our next Great Wolf Lodge resort in the Charlotte, North Carolina metropolitan area. We expect to build a 401-room resort with an accompanying 20,000 square feet of meeting space. The project is subject to regulatory and land use approvals, which are expected to occur later in 2007. Based on the anticipated timing of final approvals, we expect to begin construction in late 2007.

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

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in Item 1 of our Annual Report on Form 10-K entitled, Forward-Looking Statements. All dollar amounts in this discussion, except for per share data and operating statistics, are in thousands.*

**Overview**

The terms Great Wolf Resorts, us, we and our are used in this report to refer to Great Wolf Resorts, Inc. *Business.* We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to

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400 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge and Blue Harbor Resort brand names. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms, which includes admission to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, an ice cream shop and confectionery, full-service spa, game arcade, gift shop and meeting space. We also generate revenues from licensing arrangements, management fees and other fees with respect to properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of operating resorts and resorts under construction. As of March 31, 2007, we operate eight Great Wolf Lodge resorts (our signature northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

|                                    | Ownership  |                    | Guest Suites | Condo Units | Indoor Entertainment                  |
|------------------------------------|------------|--------------------|--------------|-------------|---------------------------------------|
|                                    | Percentage | Opening            |              |             | Area(1)<br>(Approx. ft <sup>2</sup> ) |
| <b>Existing Resorts:</b>           |            |                    |              |             |                                       |
| Wisconsin Dells, WI (2)            | 30%        | 1997               | 309          | 77          | 102,000                               |
| Sandusky, OH (2)                   | 30%        | 2001               | 271          |             | 41,000                                |
| Traverse City, MI                  | 100%       | 2003               | 281          |             | 51,000                                |
| Kansas City, KS                    | 100%       | 2003               | 281          |             | 49,000                                |
| Sheboygan, WI                      | 100%       | 2004               | 182          | 64          | 54,000                                |
| Williamsburg, VA                   | 100%       | 2005               | 405(3)       |             | 78,000                                |
| Pocono Mountains, PA               | 100%       | 2005               | 401          |             | 91,000                                |
| Niagara Falls, ONT (4)             |            | 2006               | 406          |             | 94,000                                |
| Mason, OH (5)                      | 84%        | 2006               | 401          |             | 93,000                                |
| <b>Resorts Under Construction:</b> |            |                    |              |             |                                       |
| Grapevine, TX(6)                   | 100%       | Late 2007<br>Early | 404          |             | 98,000                                |
| Grand Mound, WA(7)                 | 49%        | 2008               | 398          |             | 78,000                                |

(1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room and fitness room, as well as our Aveda spa in the resorts that have such amenities.

- (2) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 70% interest in the joint venture, and we have a 30% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture under long-term agreements, subject to earlier termination in certain situations.
- (3) Construction for the expansion of 104 additional guest suites, conference center space and waterpark attractions began in May 2006. The additional waterpark attractions were completed in December 2006. The additional guest suites were completed in March 2007. We expect to complete the conference center space in Summer 2007.



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- (4) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016. We manage the resort on behalf of Ripley and also provide central reservation services.
- (5) We entered into a joint venture agreement with a subsidiary of CBS Corporation (CBS), to build this resort and attached conference center. We operate the resort under our Great Wolf Lodge brand and have a majority of the equity in the project. CBS has a minority equity interest in the resort. This resort opened in December 2006 and the conference

center was completed in March 2007.

- (6) We are developing a Great Wolf Lodge resort in Grapevine, Texas. The northwoods themed, eight-story resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort began in June 2006 with expected completion in late 2007.
- (7) We have entered into a joint venture agreement with The Confederated Tribes of the Chehalis Reservation (Chehalis) to build this resort. We will operate the resort under our Great Wolf Lodge brand. Chehalis will lease the land needed for the resort to the joint venture, and they will have a majority

equity interest  
in the joint  
venture.

Construction on  
the resort began  
in October 2006  
with expected  
completion in  
early 2008.

*Industry Trends.* We operate in the family entertainment resort segment of the travel and leisure industry. The concept of a family entertainment resort with an indoor waterpark was first introduced to the United States in Wisconsin Dells, Wisconsin, and has evolved there over the past 17 years. In an effort to boost occupancy and daily rates, as well as capture off-season demand, hotel operators in the Wisconsin Dells market began expanding indoor pools and adding waterslides and other water-based attractions to existing hotels and resorts. The success of these efforts prompted several local operators to build new, larger destination resorts based primarily on the concept.

We believe that these properties, which typically are themed and include other resort features such as arcades, retail shops and full food and beverage service in addition to the indoor waterpark, have historically outperformed standard hotels in the market. We believe that the rate premiums and increased market share in the Wisconsin Dells for hotels and resorts with some form of an indoor waterpark can be attributed to several factors, including the ability to provide a year-round vacation destination without weather-related risks, the wide appeal of water-based recreation and the favorable trends in leisure travel discussed below.

While no standard industry definition for a family entertainment resort featuring an indoor waterpark has developed, we generally consider resorts with at least 200 rooms featuring indoor waterparks larger than 25,000 square feet, as well as a variety of water slides and other water-based attractions, to be competitive with our resorts. A recent Hotel & Leisure Advisors, LLC (H&LA) survey indicates that the number of indoor waterpark destination resorts has grown from 29 available properties as of year-end 2005 to 41 available properties as of year-end 2006.

We believe recent vacation trends favor drive-to family entertainment resorts featuring indoor waterparks, as the number of families choosing to take shorter, more frequent vacations they can drive to has increased in recent years. We believe these trends will continue. We believe indoor waterpark resorts are generally less affected by changes in economic cycles, as drive-to destinations are generally less expensive and more convenient than destinations that require air travel.

*Outlook.* We believe that no other operator or developer other than Great Wolf Resorts has established a regional portfolio of family entertainment resorts featuring indoor waterparks. We intend to continue to expand our portfolio of owned resorts throughout the United States and to selectively seek licensing and management opportunities domestically and internationally. The resorts we are currently constructing and plan to develop in the future require significant industry knowledge and substantial capital resources. Several of our resorts have similar family entertainment resorts that compete directly with them.



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Our primary business objective is to increase long-term stockholder value. We believe we can increase stockholder value by executing our internal and external growth strategies. Our primary internal growth strategies are to: maximize total resort revenue; minimize costs by leveraging our economies of scale; and build upon our existing brand awareness and loyalty in order to compete more effectively. Our primary external growth strategies are to: capitalize on our first-mover advantage by being the first to develop and operate family entertainment resorts featuring indoor waterparks in our selected target markets; focus on development and strategic growth opportunities by seeking to develop additional resorts and target selected licensing and joint venture opportunities; and continue to innovate by leveraging our in-house expertise, in conjunction with the knowledge and experience of our third-party suppliers and designers.

In attempting to execute our internal and external growth strategies, we are subject to a variety of business challenges and risks. These challenges include: development and licensing of properties; increases in costs of constructing, operating and maintaining our resorts; competition from other entertainment companies, both within and outside our industry segment; and external economic risks, including family vacation patterns and trends. We seek to meet these challenges by providing sufficient management oversight to site selection, development and resort operations, concentrating on growing and strengthening awareness of our brand and demand for our resorts, and maintaining our focus on safety.

We believe that Traverse City and Sandusky resorts have been and will continue to be affected by adverse general economic circumstances in the Michigan/Ohio region (such as bankruptcies of several major companies and/or large announced layoffs by major employers) and increased competition that has occurred in these markets over the past two years. The Michigan/Ohio region includes cities that have historically been the Traverse City and Sandusky resorts' largest suppliers of customers. We believe the adverse general economic circumstances in the region have negatively impacted overall discretionary consumer spending in that region over the past year and may continue to do so going forward. We believe this has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts. Also, we have experienced a slower-than-expected occupancy ramp-up and lower-than-expected average daily room rates at our Sheboygan, Wisconsin property since its opening in 2004. We believe this operating weakness has been primarily attributable to the fact that the overall development of Sheboygan as a tourist destination continues to lag behind our initial expectations. We believe this has impacted and will likely continue to impact the consumer demand for our indoor waterpark resort in that market and the operations of the resort.

*Revenue and Key Performance Indicators.* We seek to generate positive cash flows and net income from each of our owned resorts. Our rooms revenue represents sales to guests of room nights at our resorts, and is the largest contributor to our cash flows and profitability. Rooms revenue accounted for approximately 66% of our total resort revenue for the three months ended March 31, 2007. We employ sales and marketing efforts to increase overall demand for rooms at our resorts. We seek to optimize the relationship between room rates and occupancies through the use of yield management techniques that attempt to project demand in order to selectively increase room rates during peak demand. These techniques are designed to assist us in managing our higher occupancy nights to achieve maximum rooms revenue and include such practices as:

Monitoring our historical trends for occupancy and estimating our high occupancy nights;

Offering the highest discounts to previous guests in off-peak periods to build customer loyalty and enhance our ability to charge higher rates in peak periods;

Structuring rates to allow us to offer our previous guests the best rate while simultaneously working with a promotional partner or offering internet specials;

Monitoring sales of room types daily to evaluate the effectiveness of offered discounts; and

Offering specials on standard suites and yielding better rates on larger suites when standard suites sell out.



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In addition, we seek to maximize the amount of time and money spent on-site by our guests by providing a variety of revenue-generating amenities.

We have several key indicators that we use to evaluate the performance of our business. These indicators include the following:

Occupancy;

Average daily room rate, or ADR;

Revenue per available room, or RevPAR;

Total revenue per available room, or Total RevPAR;

Total revenue per occupied room, or Total RevPOR; and

Earnings before interest, taxes, depreciation and amortization, or EBITDA.

Occupancy, ADR and RevPAR are commonly used measures within the hospitality industry to evaluate hotel operations and are defined as follows:

Occupancy is calculated by dividing total occupied rooms by total available rooms.

ADR is calculated by dividing total rooms revenue by total occupied rooms.

RevPAR is the product of occupancy and ADR.

Total RevPAR and Total RevPOR are defined as follows:

Total RevPAR is calculated by dividing total revenue by total available rooms.

Total Rev POR is calculated by dividing total revenue by total occupied rooms.

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. While ADR and RevPAR only include rooms revenue, Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the three months ended March 31, 2007, approximately 34% of our total resort revenues consisted of non-rooms revenue.

We use RevPAR and Total RevPAR to evaluate the blended effect that changes in occupancy, ADR and Total RevPOR have on our profitability. We focus on increasing ADR and Total RevPOR because those increases can have the greatest positive impact on our profitability. In addition, we seek to maximize occupancy, as increases in occupancy generally lead to greater total revenues at our resorts, and maintaining certain occupancy levels is key to covering our fixed costs. Increases in total revenues as a result of higher occupancy are, however, typically accompanied by additional incremental costs (including housekeeping services, utilities and room amenity costs). In contrast, increases in total revenues from higher ADR and Total RevPOR are typically accompanied by lower incremental costs, and result in a greater increase in profitability.

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We also use EBITDA as a measure of the operating performance of each of our resorts. EBITDA is a supplemental financial measure, and is not defined by accounting principles generally accepted in the United States of America, or GAAP. See **Non-GAAP Financial Measures** below for further discussion of our use of EBITDA and a reconciliation to net income.

**Recent Accounting Pronouncements**

In July 2006, the FASB issued Financial Interpretation No. 48 (FIN 48), **Accounting for Uncertainty in Income Taxes**, which clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with FASB Statement No. 109, **Accounting for Income Taxes**. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We and our subsidiaries file income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. All of the tax years since the date of our IPO are open in all jurisdictions. Our policy is to recognize interest related to unrecognized tax benefits as interest expense and penalties as income tax expense. We believe that we have appropriate support for the income tax positions taken and to be taken on our tax returns and that our accruals for tax liabilities are adequate for all open years based on an assessment of many factors including past experience and interpretations of tax law applied to the facts of each matter.

We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of \$978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 U.S. Federal income tax return related to transaction costs from our IPO. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year.

In September 2006, the FASB issued Statement of Financial Accounting Standards 157, **Fair Value Measurements** (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of this statement.

In February 2007, the FASB issued SFAS No. 159, **The Fair Value Option for Financial Assets and Financial Liabilities** (SFAS 159). SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. We are currently evaluating the impact of the adoption of this statement.

**Non-GAAP Financial Measures**

We use EBITDA as a measure of our operating performance. EBITDA is a supplemental non-GAAP financial measure. EBITDA is commonly defined as net income plus (a) net interest expense, (b) income taxes, and (c) depreciation and amortization.

EBITDA as calculated by us is not necessarily comparable to similarly titled measures presented by other companies. In addition, EBITDA (a) does not represent net income or cash flows from operations as defined by GAAP; (b) is not necessarily indicative of cash available to fund our cash flow needs; and (c) should not be considered as an alternative to

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net income, operating income, cash flows from operating activities or our other financial information as determined under GAAP.

We believe EBITDA is useful to an investor in evaluating our operating performance because:  
a significant portion of our assets consists of property and equipment that are depreciated over their remaining useful lives in accordance with GAAP. Because depreciation and amortization are non-cash items, we believe that presentation of EBITDA is a useful measure of our operating performance;

it is widely used in the hospitality and entertainment industries to measure operating performance without regard to items such as depreciation and amortization; and

we believe it helps investors meaningfully evaluate and compare the results of our operations from period to period by removing the impact of items directly resulting from our asset base, primarily depreciation and amortization, from our operating results.

Our management uses EBITDA:

as a measurement of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of items directly resulting from our asset base, primarily depreciation and amortization, from our operating results;

for planning purposes, including the preparation of our annual operating budget;

as a valuation measure for evaluating our operating performance and our capacity to incur and service debt, fund capital expenditures and expand our business; and

as one measure in determining the value of other acquisitions and dispositions.

Using a measure such as EBITDA has material limitations. These limitations include the difficulty associated with comparing results among companies and the inability to analyze certain significant items, including depreciation and interest expense, which directly affect our net income or loss. Management compensates for these limitations by considering the economic effect of the excluded expense items independently, as well as in connection with its analysis of net income.

The following table reconciles net income (loss) to EBITDA for the periods presented.

|                               | <b>Three months ended<br/>March 31,</b> |                 |
|-------------------------------|-----------------------------------------|-----------------|
|                               | <b>2007</b>                             | <b>2006</b>     |
| Net loss                      | \$ (2,005)                              | \$ (945)        |
| Adjustments:                  |                                         |                 |
| Interest expense, net         | 2,538                                   | 1,179           |
| Income tax benefit            | (911)                                   | (606)           |
| Depreciation and amortization | 8,644                                   | 6,098           |
| <b>EBITDA</b>                 | <b>\$ 8,266</b>                         | <b>\$ 5,726</b> |

**Results of Operations**

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***General***

Our results of operations for the three months ended March 31, 2007 and 2006 are not directly comparable primarily due to the opening of our Great Wolf Lodge in Mason, Ohio in December 2006.

Our financial information includes:

our corporate entity that provides resort development and management services;

our Traverse City, Kansas City, Sheboygan, Williamsburg, Pocono Mountains, and Mason operating resorts;

equity interests in resorts in which we have ownership interests but which we do not consolidate; and

our resorts that are under construction which we will consolidate.

*Revenues.* Our revenues consist of:

lodging revenue, which includes rooms, food and beverage, and other department revenues from our resorts;

management fee and other revenue from resorts, which includes fees received under our management, license, development and construction management agreements; and

other revenue from managed properties. We employ the staff at our managed properties (except for the Niagara Falls resort). Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the operations of the managed properties. Emerging Issues Task Force, or EITF, Issue No. 01-14, Income Statement Characteristics of Reimbursements for Out-of-Pocket Expenses (EITF 01-14), establishes standards for accounting for reimbursable expenses in our statements of operations. Under this pronouncement, the reimbursement of payroll, benefits and costs is recorded as revenue on our statements of operations, with a corresponding expense recorded as other expenses from managed properties.

*Operating Expenses.* Our departmental operating expenses consist of rooms, food and beverage and other department expenses.

Our other operating expenses include the following items:

selling, general and administrative expenses, which are associated with the operations and management of resorts and which consist primarily of expenses such as corporate payroll and related benefits, operations management, sales and marketing, finance, legal, information technology support, human resources and other support services, as well as general corporate expenses;

property operation and maintenance expenses, such as utility costs and property taxes;

cost of sales of condominiums;

depreciation and amortization; and

other expenses from managed properties, which are recorded as an expense in accordance with EITF 01-14.

***Three months ended March 31, 2007 compared with the three months ended March 31, 2006***

The following table shows key operating statistics for our resorts for the three months ended March 31, 2007 and 2006:

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|                     | <b>All Properties<br/>(a)</b>                        |                                                          | <b>Same Store Comparison (b)</b>                         |                            |          |
|---------------------|------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|----------------------------|----------|
|                     | <b>Three months<br/>ended<br/>March 31,<br/>2007</b> | <b>Three<br/>months<br/>ended<br/>March 31,<br/>2007</b> | <b>Three<br/>months<br/>ended<br/>March 31,<br/>2006</b> | <b>Increase (Decrease)</b> |          |
|                     |                                                      |                                                          |                                                          | <b>\$</b>                  | <b>%</b> |
| <b>Occupancy</b>    | 64.2%                                                | 65.6%                                                    | 66.8%                                                    | N/A                        | (1.8)%   |
| <b>ADR</b>          | \$ 253.99                                            | \$247.61                                                 | \$ 238.04                                                | \$ 9.57                    | 4.0%     |
| <b>RevPAR</b>       | \$ 163.17                                            | \$162.43                                                 | \$ 158.92                                                | \$ 3.51                    | 2.2%     |
| <b>Total RevPOR</b> | \$ 387.63                                            | \$375.87                                                 | \$ 360.95                                                | \$14.92                    | 4.1%     |
| <b>Total RevPAR</b> | \$ 249.03                                            | \$246.56                                                 | \$ 240.98                                                | \$ 5.58                    | 2.3%     |

(a) Includes results for properties that were open for any portion of the period, for all owned and/or managed resorts.

(b) Same store comparison includes properties that were open for the full periods in 2007 and 2006 (that is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, and Poconos resorts).

In December 2006 we opened our resort in Mason, Ohio. As a result, total revenue, rooms revenue and other revenue for the three month periods ended March 31, 2007 and March, 2006 are not directly comparable.

Presented below are selected amounts from the statements of operations for the three months ended March 31, 2007 and 2006:

|  | <b>Three months ended<br/>March 31,</b> |             | <b>Increase<br/>(Decrease)</b> |
|--|-----------------------------------------|-------------|--------------------------------|
|  | <b>2007</b>                             | <b>2006</b> |                                |

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|                                     |          |          |          |
|-------------------------------------|----------|----------|----------|
| Revenues                            | \$48,459 | \$37,836 | \$10,623 |
| Operating expenses:                 |          |          |          |
| Departmental operating expenses     | 16,520   | 12,195   | 4,325    |
| Selling, general and administrative | 13,122   | 11,650   | 1,472    |
| Property operating costs            | 7,883    | 4,877    | 3,006    |
| Depreciation and amortization       | 8,644    | 6,098    | 2,546    |
| Loss on sale of real estate         |          | 578      | (578)    |
| Net operating loss                  | (745)    | (544)    | 201      |
| Net interest expense                | 2,538    | 1,179    | 1,359    |
| Income tax benefit                  | (1,026)  | (675)    | 351      |
| Net loss                            | (2,005)  | (945)    | 1,060    |

*Revenues.* Total revenues increased primarily due to the opening of our Mason resort in December 2006. Revenues also increased at our resorts in Williamsburg and Pocono Mountains by \$3,002 for the three months ended March 31, 2007 as compared to March 31, 2006 due to increased marketing efforts.

*Operating expenses.* Total operating expenses increased primarily due to the opening of our Mason resort in December 2006.

Total departmental expenses increased primarily due to the impact of our Mason resort.



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Total selling, general and administrative expenses increased primarily due to the impact of our Mason resort.

Total property operating costs (exclusive of opening costs) increased primarily due to the impact of our Mason resort. Property operating costs (exclusive of opening costs) for our Williamsburg and Pocono Mountains resorts increased \$781, primarily due to increased repairs and maintenance expense, and increased utilities expense related to expansions. Opening costs primarily related to our Williamsburg, Mason, Grapevine and Grand Mound resorts were \$2,313 for the three months ended March 31, 2007, as compared to \$725 for the three months ended March 31, 2006 related to our Pocono Mountains, Mason, Grapevine and our managed property in Niagara.

Total depreciation and amortization increased due to the opening of our Mason resort and additional property and equipment purchases at our other resorts. Our Williamsburg and Pocono Mountains resorts had increased depreciation during the three months ended March 31, 2007 as compared to March 31, 2006 of \$584 which relates to added amenities and expansions at these resorts.

*Net operating loss.* Net operating loss for the three months ended March 31, 2007 increased \$201 to \$(745) from \$(544) for the three months ended March 31, 2006.

*Net loss.* Net loss increased due to the following:

A increase in operating loss from \$(544) for the three months ended March 31, 2006 to \$(745) for the three months ended March 31, 2007.

An increase in net interest expense of \$1,359 mainly due to mortgage debt related our Pocono Mountains and Mason resorts.

This increase was partially offset by an increase of \$351 in income tax benefit recorded in the three months ended March 31, 2007 as compared to the three months ended March 31, 2006.

**Segments**

We are organized into a single operating division. Within that operating division, we have three reportable segments in 2007:

resort ownership/operation-revenues derived from our consolidated owned resorts;

resort third-party management-revenues derived from management, license and other related fees from unconsolidated managed resorts; and

condominium sales-revenues derived from sales of condominium units to third-party owners.

We evaluate the performance of each segment based on earnings before interest, income taxes, and depreciation and amortization (EBITDA), excluding minority interests and equity in earnings of unconsolidated affiliates.

|                                   | <b>Three months ended March 31,</b> |             |                                |
|-----------------------------------|-------------------------------------|-------------|--------------------------------|
|                                   | <b>2007</b>                         | <b>2006</b> | <b>Increase<br/>(Decrease)</b> |
| <b>Resort Ownership/Operation</b> |                                     |             |                                |
| Revenues                          | \$43,646                            | \$33,979    | \$9,667                        |
| EBITDA, excluding certain items   | 8,422                               | 8,103       | 319                            |
| <b>Resort Third-Party Mgmt</b>    |                                     |             |                                |
| Revenues                          | 4,813                               | 3,857       | 956                            |
| EBITDA, excluding certain items   | 1,778                               | 875         | 903                            |

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|                                 | <b>Three months ended March 31,</b> |             | <b>Increase<br/>(Decrease)</b> |
|---------------------------------|-------------------------------------|-------------|--------------------------------|
|                                 | <b>2007</b>                         | <b>2006</b> |                                |
| <b>Condominium Sales</b>        |                                     |             |                                |
| Revenues                        |                                     |             |                                |
| EBITDA, excluding certain items |                                     |             |                                |
| <b>Other</b>                    |                                     |             |                                |
| Revenues                        |                                     |             |                                |
| EBITDA, excluding certain items | (2,301)                             | (3,424)     | 1,123                          |

The Other items in the table above represent corporate-level activities that do not constitute a reportable segment.

**Liquidity and Capital Resources**

We had total indebtedness of \$302,470 and \$289,389 as of March 31, 2007 and December 31, 2006, respectively, summarized as follows:

|                                         | <b>March 31,<br/>2007</b> | <b>December<br/>31,<br/>2006</b> |
|-----------------------------------------|---------------------------|----------------------------------|
| <b>Long-Term Debt:</b>                  |                           |                                  |
| Traverse City/Kansas City mortgage loan | \$ 72,477                 | \$ 72,801                        |
| Mason construction loan                 | 69,221                    | 55,792                           |
| Pocono Mountains mortgage loan          | 97,000                    | 97,000                           |
| Junior subordinated debentures          | 51,550                    | 51,550                           |
| <b>Other Debt:</b>                      |                           |                                  |
| City of Sheboygan bonds                 | 8,402                     | 8,383                            |
| City of Sheboygan loan                  | 3,820                     | 3,863                            |
|                                         | 302,470                   | 289,389                          |
| Less current portion of long-term debt  | (1,444)                   | (1,432)                          |
| <b>Total long-term debt</b>             | <b>\$ 301,026</b>         | <b>\$ 287,957</b>                |

*Traverse City/Kansas City Mortgage Loan* This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants, including a minimum debt service coverage ratio, representing the combined EBITDA (adjusted for non-recurring items, unusual items, infrequent items and asset impairment charges) minus 4% of the revenues of two resorts divided by their combined annual interest expense and principal amortization. The loan also has customary prohibitions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at March 31, 2007.

*Mason Construction Loan* In December 2005 we closed on a \$76,800 loan to construct the Great Wolf Lodge in Mason, Ohio. The loan is secured by a first mortgage on the Mason, Ohio property and matures in December 2008. The loan also has two one-year extensions after the initial 3-year term available at our option. The lenders have a construction and debt service guaranty from us. In conjunction with the debt service guaranty, we must maintain a maximum ratio of long-term debt minus cash divided by consolidated trailing twelve month adjusted EBITDA of 6.50x and a minimum tangible net worth of \$200,000 or greater. The construction guaranty expired at the opening date of the resort and the debt service guaranty expires once the resort achieves a trailing cash flow threshold. The loan bears interest at a floating rate of 30 day LIBOR plus a spread of 265 basis points (total rate of 7.97% as of March 31, 2007). The loan is interest only during the initial three-year term and then is subject to a 25-year

amortization schedule in the extension years. The loan has customary covenants associated with an individual mortgaged property. There are no prohibitions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at March 31, 2007.

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*Pocono Mountains Mortgage Loan* In December 2006 we closed on a \$97,000 first mortgage loan secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures December 1, 2016. The loan is interest only for the initial 18-month period and thereafter is subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary prohibitions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at March 31, 2007.

*Junior Subordinated Debentures* In March 2005 we completed a private offering of \$50,000 of trust preferred securities (TPS) through Great Wolf Capital Trust I (the Trust), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.80% through March 2015 and then floats at LIBOR + 310 basis points thereafter. The securities mature in March 2035 and are callable at no premium after March 2010. In addition, we invested \$1,500 in the Trust's common securities, representing 3% of the total capitalization of the Trust.

The Trust used the proceeds of the offering and our investment to purchase from us \$51,550 of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The costs of the trust preferred offering totaled \$1,600, including \$1,500 of underwriting commissions and expenses and \$100 of costs incurred directly by the Trust. The Trust paid these costs utilizing an investment from us. These costs are being amortized over a 30-year period. The proceeds from our debenture sale, net of the costs of the trust preferred offering and our investment in the Trust, were \$48,400. We used the net proceeds to retire the Pocono Mountains construction loan.

As a result of the issuance of FASB Interpretation No. 46R, *Consolidation of Variable Interest Entities* and the accounting profession's application of the guidance provided by the FASB, issue trusts, like the Trust, are generally variable interest entities. We have determined that we are not the primary beneficiary under the Trust, and accordingly we do not include the financial statements of the Trust in our consolidated financial statements.

Based on the foregoing accounting authority, our consolidated financial statements present the debentures issued to the Trust as long-term debt. Our investment in the Trust is accounted as a cost investment and is included in other assets. For financial reporting purposes, we record interest expense on the corresponding debentures in our consolidated statements of operations.

*City of Sheboygan Bonds* The City of Sheboygan (the City) bonds represent the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In accordance with the provisions of EITF Issue No. 91-10, we have recognized as a liability the obligations for the BANs. The notes bear interest at an annual rate of 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of BANs or other funds appropriated by the City for the payment of interest on the BANs and (b) the proceeds to be delivered from the issuance and sale of securities by the City. We have an obligation to fund payment of these BANs. Our obligation to fund repayment of the notes will be satisfied by certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028.

*City of Sheboygan Loan* The City of Sheboygan loan amount represents a loan made by the City in 2004 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. The loan is noninterest bearing and matures in 2018. Our obligation to repay the loan will be satisfied by certain minimum guaranteed amounts of real and personal property tax payments to be made by the Blue Harbor Resort through 2018.

*Future Maturities* Future principal requirements on long-term debt are as follows:

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|            | <b>Through<br/>March 31,</b> |
|------------|------------------------------|
| 2008       | \$ 1,444                     |
| 2009       | 2,285                        |
| 2010       | 2,810                        |
| 2011       | 72,228                       |
| 2012       | 3,195                        |
| Thereafter | 220,508                      |
| <br>Total  | <br>\$ 302,470               |

**Short-Term Liquidity Requirements**

Our short-term liquidity requirements consist primarily of funds necessary to pay operating expenses for the next 12 months, including:

recurring maintenance, repairs and other operating expenses necessary to properly maintain and operate our resorts;

property taxes and insurance expenses;

interest expense and scheduled principal payments on outstanding indebtedness;

general and administrative expenses; and

income taxes.

Historically, we have satisfied our short-term liquidity requirements through operating cash flows and cash on hand. We believe that cash provided by our operations, together with cash on hand, will be sufficient to fund our short-term liquidity requirements for working capital, capital expenditures and debt service for the next 12 months.

**Long-Term Liquidity Requirements**

Our long-term liquidity requirements consist primarily of funds necessary to pay for the following items for periods beyond the next 12 months:

scheduled debt maturities;

capital contributions and loans to unconsolidated joint ventures;

renovations, expansions and other non-recurring capital expenditures that need to be made periodically to our resorts; and

costs associated with the development of new resorts.

We expect to meet these needs through existing working capital, cash provided by operations and a combination of mortgage financing on properties being developed, proceeds from investing activities (such as the sale of newly-constructed condominiums at our existing resorts or sale of ownership interests in certain resorts), additional borrowings under future credit facilities, and the issuance of equity instruments, including common stock, or additional or replacement debt, if market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our largest long-term expenditures are expected to be for capital expenditures for development of future resorts and capital contributions to joint ventures owning resorts under construction. Such expenditures were \$50,592 for the three months ended March 31, 2007. We expect to have approximately \$107,300 of such expenditures in the remainder of 2007



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and \$26,000 in 2008. As discussed above, we expect to meet these requirements through a combination of cash provided by operations, cash on hand, proceeds from investing activities and new and/or existing mortgage financing on properties being developed.

**Off Balance Sheet Arrangements**

We have two unconsolidated joint venture arrangements at March 31, 2007. We account for our unconsolidated joint ventures using the equity method of accounting.

Our joint venture with CNL Income Properties, Inc. (CNL) owns two resorts, Great Wolf Lodge-Wisconsin Dells, Wisconsin and Great Wolf Lodge-Sandusky, Ohio. We are a limited partner in the CNL joint venture with a 30% ownership interest. At March 31, 2007, the joint venture had aggregate outstanding indebtedness to third parties of approximately \$63,000. This loan is a mortgage loan that is non-recourse to us.

We entered into our joint venture with The Confederated Tribes of the Chehalis Reservation to develop a Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This joint venture is a limited liability company; we are a member of that limited liability company with a 49% ownership interest.

As capital may be required to fund the activities of these resorts, we may be required to fund in the future the joint ventures' shares of the costs not funded by the majority owner of the joint venture, the joint ventures' operations or outside financing. Additionally, we may be required to provide a guarantee on mortgage debt to be obtained by the Grand Mound joint venture. Based on the nature of the activities conducted in these joint ventures, management cannot estimate with any degree of accuracy amounts that we may be required to fund in the long-term. Management does not currently believe that any additional future funding of these joint ventures will have an adverse effect on our financial condition, however, as we do not expect to make significant future capital contributions to these joint ventures other than during the construction period for the Grand Mound resort.

**Contractual Obligations**

The following table summarizes our contractual obligations as of March 31, 2007:

|                                      | Total      | Payment Terms    |           |           | More Than 5 Years |
|--------------------------------------|------------|------------------|-----------|-----------|-------------------|
|                                      |            | Less Than 1 Year | 1-3 Years | 3-5 Years |                   |
| Debt obligations(1)                  | \$ 302,470 | \$ 1,444         | \$ 5,095  | \$ 75,423 | \$ 220,508        |
| Operating lease obligations          | 1,053      | 405              | 648       |           |                   |
| Construction contracts               | 57,113     | 57,113           |           |           |                   |
| Reserve on unrecognized tax benefits | 978        |                  |           | 978       |                   |
| Total                                | \$ 361,614 | \$ 58,962        | \$ 5,743  | \$ 76,401 | \$ 220,508        |

(1) Includes \$8,402 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and

\$3,820 of fixed rate debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by our Sheboygan resort.

As we develop future resorts, we expect to incur significant additional debt and construction contract obligations.



**Table of Contents****Working Capital**

We had \$62,718 of available cash and cash equivalents and working capital of \$23,432 (current assets less current liabilities) at March 31, 2007, compared to the \$96,778 of available cash and cash equivalents and \$55,365 of working capital at December 31, 2006.

**Cash Flows****Three months ended March 31, 2007 compared with the three months ended March 31, 2006**

|                                           | <b>2007</b> | <b>2006</b> | <b>Increase<br/>(Decrease)</b> |
|-------------------------------------------|-------------|-------------|--------------------------------|
| Net cash provided by operating activities | \$ 4,329    | \$ 5,872    | \$ (1,543)                     |
| Net cash used in investing activities     | (51,544)    | (6,931)     | 44,613                         |
| Net cash provided by financing activities | 13,155      | 3,070       | 10,085                         |

*Operating Activities.* The decrease in net cash provided by operating activities resulted primarily from an increase in net loss and the change in accounts receivable and other assets for the three months ended March 31, 2007 as compared to the three months ended March 31, 2006.

*Investing Activities.* The increase in net cash used in investing activities for the three months ended March 31, 2007, as compared to the three months ended March 31, 2006, resulted primarily from increased capital expenditures for our properties that are in service and our development properties.

*Financing Activities.* The increase in net cash provided by financing activities resulted primarily from an increase in loan proceeds, net of principal payments in the three months ended March 31, 2007 versus the three months ended March 31, 2006.

**Inflation**

Our resort properties are able to change room and amenity rates on a daily basis, so the impact of higher inflation can often be passed along to customers. However, a weak economic environment that decreases overall demand for our products and services could restrict our ability to raise room and amenity rates to offset rising costs.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Our earnings are also affected by the changes in our interest rates due to the impact those changes have on our interest income from cash and short-term investments, and our interest expense from variable-rate debt instruments. We may use derivative financial instruments to manage or hedge interest rate risks related to our borrowings. We do not intend to use derivatives for trading or speculative purposes.

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of \$76.8 million. The agreement expires in December 2008. The agreement effectively fixes the interest rate on \$76.8 million of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which is expected to fully perform under the terms of the agreement.

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As of March 31, 2007, we had total indebtedness of approximately \$302,470. This debt consisted of: \$72,477 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

\$51,550 of subordinated debentures that bear interest at a fixed rate of 7.80% through March 2015 and then at a floating rate of LIBOR plus 310 basis points thereafter. The securities mature in March 2035.

\$97,000 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%

\$69,221 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30 day LIBOR plus a spread of 265 basis points. The total rate was 7.97% at March 31, 2007.

\$8,402 of fixed rate debt (effective interest rate of 10.67%) recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,820 of noninterest bearing debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by the Sheboygan resort; and

As of March 31, 2007, we estimate the total fair value of the indebtedness described above to be \$4,434 more than their total carrying values, due to the terms of the existing debt being different than those terms we believe would currently be available to us for indebtedness with similar risks and remaining maturities.

If the prime rate and/or LIBOR were to increase by 1% or 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$692 annually. If the prime rate were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately \$692 annually.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures designed to provide reasonable assurance that information in our reports under the Securities Exchange Act of 1934, as amended (the Exchange Act) is recorded, processed, summarized and reported within the time periods specified pursuant to the SEC's rules and forms. Disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, include controls and procedures designed to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable, and not absolute, assurance that the objectives of the system are met.

We carried out an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the first quarter of 2007. We have concluded that our disclosure controls and procedures were effective as of March 31, 2007.

**Changes In Internal Control**

During the period covered by this quarterly report on Form 10-Q, there have been no changes to our internal control over financial reporting that are reasonably likely to materially affect our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are involved in litigation from time to time in the ordinary course of our business. We do not believe that the outcome of any such pending or threatened litigation will have a material adverse effect on our financial condition or results of operations. However, as is inherent in legal proceedings where issues may be decided by finders of fact, there is a risk that unpredictable decisions adverse to us could be reached.

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

The exhibits listed below are incorporated herein by reference to prior SEC filings by the Registrant or are included as exhibits in this Form 10-Q.

**Exhibit**

**Number**

**Description**

|     |                                                                                                                                                                  |
|-----|------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1 | Form of Merger Agreement (Delaware) (incorporated herein by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 filed August 12, 2004)  |
| 2.2 | Form of Merger Agreement (Wisconsin) (incorporated herein by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 filed August 12, 2004) |

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| <b>Exhibit<br/>Number</b> | <b>Description</b>                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
|---------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3.1                       | Form of Amended and Restated Certificate of Incorporation for Great Wolf Resorts, Inc. dated December 9, 2004 (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed August 12, 2004)                                                                                                                                                                                                                                  |
| 3.2                       | Form of Amended and Restated Bylaws of Great Wolf Resorts, Inc. effective September 12, 2006 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed September 18, 2006)                                                                                                                                                                                                                                                        |
| 4.1                       | Form of the Common Stock Certificate of Great Wolf Resorts, Inc. (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed October 21, 2004)                                                                                                                                                                                                                                                                              |
| 4.2                       | Junior Subordinated Indenture, dated as of March 15, 2005, between Great Wolf Resorts, Inc. and JP Morgan Chase Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 18, 2005)                                                                                                                                                                                                  |
| 4.3                       | Amended and Restated Trust Agreement, dated as of March 15, 2005, by and among Chase Manhattan Bank USA, National Association, as Delaware trustee; JP Morgan Chase Bank, National Association, as property trustee; Great Wolf Resorts, Inc., as depositor; and James A. Calder, Alex P. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 18, 2005) |
| 31.1*                     | Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)                                                                                                                                                                                                                                                                                                                                                                  |
| 31.2*                     | Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)                                                                                                                                                                                                                                                                                                                                                                  |
| 32.1*                     | Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350                                                                                                                                                                                                                                                                                                                                                                                                |
| 32.2*                     | Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350                                                                                                                                                                                                                                                                                                                                                                                                |

\* Filed herewith.

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**SIGNATURE**

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

GREAT WOLF RESORTS, INC.

/s/ James A. Calder  
James A. Calder  
Chief Financial Officer (Duly authorized  
officer) (Principal Financial and  
Accounting Officer)

Dated: May 8, 2007

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