

Great Wolf Resorts, Inc.  
Form 10-Q  
August 05, 2009

**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 June 30, 2009**

**OR**

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

**For the transition period from to  
Commission File Number 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

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

*(Do not check if a smaller reporting company)*

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

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The number of shares outstanding of the issuer's common stock was 31,307,542 as of August 5, 2009.

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**Great Wolf Resorts, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the Quarter Ended June 30, 2009**  
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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Dollars in thousands, except share and per share amounts)

|  | <b>June 30,<br/>2009<br/>(Unaudited)</b> | <b>December<br/>31,<br/>2008</b> |
|--|--|----------------------------------|
| <b>ASSETS</b>  |  |                                  |
| Current assets:  |  |                                  |
| Cash and cash equivalents  | \$ 23,035                                | \$ 14,231                        |
| Accounts receivable, net of allowance for doubtful accounts of \$98 and \$114                                | 2,847                                    | 2,167                            |
| Accounts receivable unconsolidated affiliates, net of allowance for doubtful accounts of \$1,638 and \$1,201 | 2,353                                    | 925                              |
| Inventory  | 5,636                                    | 4,265                            |
| Other current assets   | 8,634                                    | 3,055                            |
| <br>Total current assets   | <br>42,505                               | <br>24,643                       |
| Property and equipment, net  | 722,939                                  | 716,173                          |
| Investments in and advances to unconsolidated affiliates   | 34,207                                   | 43,855                           |
| Other assets   | 39,586                                   | 31,561                           |
| Other intangible assets  | 23,829                                   | 23,829                           |
| <br>Total assets   | <br>\$ 863,066                           | <br>\$ 840,061                   |
| <br><b>LIABILITIES AND STOCKHOLDERS EQUITY</b>   |  |                                  |
| Current liabilities:   |  |                                  |
| Current portion of long-term debt  | \$ 81,964                                | \$ 81,464                        |
| Accounts payable   | 6,810                                    | 23,217                           |
| Accounts payable unconsolidated affiliates   | 9  | 622                              |
| Accrued expenses   | 22,682                                   | 22,565                           |
| Accrued expenses unconsolidated affiliates   | 1,475                                    | 1,184                            |
| Advance deposits   | 11,867                                   | 7,498                            |
| Gift certificates payable  | 4,180                                    | 5,416                            |
| <br>Total current liabilities  | <br>128,987                              | <br>141,966                      |
| Mortgage debt  | 379,728                                  | 333,259                          |
| Other long-term debt   | 92,320                                   | 92,328                           |
| Deferred compensation liability  | 678                                      | 568                              |
| <br>Total liabilities  | <br>601,713                              | <br>568,121                      |
| <br>Commitments and contingencies  |  |                                  |
| Stockholders equity:   |  |                                  |

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|   |            |            |
|---|------------|------------|
| Common stock, \$0.01 par value; 250,000,000 shares authorized; 31,298,676<br>and 30,982,646 shares issued and outstanding | 313        | 310        |
| Additional paid-in-capital  | 400,402    | 399,641    |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares<br>issued or outstanding                       |            |            |
| Accumulated deficit   | (139,162)  | (127,811)  |
| Deferred compensation   | (200)      | (200)      |
| Total stockholders' equity  | 261,353    | 271,940    |
| Total liabilities and stockholders' equity  | \$ 863,066 | \$ 840,061 |

See accompanying notes to condensed consolidated financial statements.

**(GREAT WOLF RESORTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE LOSS**

**(Unaudited; dollars in thousands, except share and per share data)**

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| Revenues:  |                           |             |                         |             |
| Rooms  | \$ 40,310                 | \$ 35,941   | \$ 76,655               | \$ 74,807   |
| Food and beverage  | 11,305                    | 10,235      | 21,207                  | 20,663      |
| Other hotel operations   | 10,160                    | 9,110       | 19,125                  | 18,680      |
| Management and other fees  | 402                       | 663         | 991                     | 1,429       |
| Management and other fees affiliates                                       | 1,210                     | 1,501       | 2,434                   | 2,596       |
|  | 63,387                    | 57,450      | 120,412                 | 118,175     |
| Other revenue from managed properties affiliates                           | 5,238                     | 5,568       | 10,520                  | 9,051       |
| Total revenues   | 68,625                    | 63,018      | 130,932                 | 127,226     |
| Operating expenses by department:  |                           |             |                         |             |
| Rooms  | 5,948                     | 5,273       | 10,977                  | 10,420      |
| Food and beverage  | 8,865                     | 8,142       | 16,280                  | 16,135      |
| Other  | 8,424                     | 7,464       | 15,692                  | 14,741      |
| Other operating expenses:  |                           |             |                         |             |
| Selling, general and administrative  | 16,987                    | 16,694      | 31,631                  | 30,092      |
| Property operating costs   | 9,114                     | 8,085       | 21,456                  | 19,914      |
| Depreciation and amortization  | 14,630                    | 11,741      | 27,216                  | 22,760      |
| Loss on disposition of property  |                           |             | 191                     |             |
|  | 63,968                    | 57,399      | 123,443                 | 114,062     |
| Other expenses from managed properties affiliates                          | 5,238                     | 5,568       | 10,520                  | 9,051       |
| Total operating expenses   | 69,206                    | 62,967      | 133,963                 | 123,113     |
| Net operating (loss) income  | (581)                     | 51          | (3,031)                 | 4,113       |
| Investment income affiliates   | (336)                     | (553)       | (720)                   | (1,004)     |
| Interest income  | (148)                     | (409)       | (336)                   | (899)       |
| Interest expense   | 8,777                     | 6,884       | 15,044                  | 13,791      |
| Loss before income taxes and equity in losses of unconsolidated affiliates | (8,874)                   | (5,871)     | (17,019)                | (7,775)     |
| Income tax benefit   | (3,635)                   | (2,232)     | (6,783)                 | (3,037)     |
| Equity in losses of unconsolidated affiliates, net of tax                  | 467                       | 451         | 1,115                   | 1,679       |

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|  |    |            |    |            |    |            |    |            |
|--|----|------------|----|------------|----|------------|----|------------|
| Net loss                                       | \$ | (5,706)    | \$ | (4,090)    | \$ | (11,351)   | \$ | (6,417)    |
| Other comprehensive loss, net of tax:          |    |            |    |            |    |            |    |            |
| Unrealized (gain) loss on interest rate swaps  |    |            |    | (356)      |    |            |    | 51         |
| Comprehensive loss                             | \$ | (5,706)    | \$ | (3,734)    | \$ | (11,351)   | \$ | (6,468)    |
| Net loss per share-basic                       | \$ | (0.18)     | \$ | (0.13)     | \$ | (0.36)     | \$ | (0.21)     |
| Net loss per share-diluted                     | \$ | (0.18)     | \$ | (0.13)     | \$ | (0.36)     | \$ | (0.21)     |
| Weighted average common shares<br>outstanding: |    |            |    |            |    |            |    |            |
| Basic  |    | 31,263,487 |    | 30,875,615 |    | 31,123,072 |    | 30,770,388 |
| Diluted  |    | 31,263,487 |    | 30,875,615 |    | 31,123,072 |    | 30,770,388 |

See accompanying notes to the condensed consolidated financial statements.

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

|   | <b>Six months ended</b> |             |
|---|-------------------------|-------------|
|   | <b>June 30,</b>         |             |
|   | <b>2009</b>             | <b>2008</b> |
| Operating activities:   |                         |             |
| Net loss  | \$ (11,351)             | \$ (6,417)  |
| Adjustments to reconcile net loss to net cash provided by operating activities: |                         |             |
| Depreciation and amortization   | 27,216                  | 22,760      |
| Bad debt expense  | 457                     | 41          |
| Non-cash employee compensation and professional fees expense                    | 469                     | 90          |
| Loss on disposition of property   | 191                     |             |
| Equity in losses of unconsolidated affiliates                                   | 1,854                   | 2,756       |
| Deferred tax benefit  | (7,582)                 | (4,115)     |
| Changes in operating assets and liabilities:                                    |                         |             |
| Accounts receivable and other assets  | (5,025)                 | (6,476)     |
| Accounts payable, accrued expenses and other liabilities                        | 2,106                   | 6,292       |
| Net cash provided by operating activities                                       | 8,335                   | 14,931      |
| Investing activities:   |                         |             |
| Capital expenditures for property and equipment                                 | (45,846)                | (55,272)    |
| Loan repayment from unconsolidated affiliates                                   | 8,098                   |             |
| Investments in unconsolidated affiliates  | (303)                   | (9,823)     |
| Investment in development   | 1,086                   | (1,811)     |
| Proceeds from sale of assets  | 66                      |             |
| Decrease in restricted cash   | 163                     | 37          |
| Increase in escrows   | (1,379)                 | (1,857)     |
| Net cash used in investing activities   | (38,115)                | (68,726)    |
| Financing activities:   |                         |             |
| Principal payments on long-term debt  | (3,112)                 | (758)       |
| Proceeds from issuance of long-term debt  | 50,073                  | 72,957      |
| Payment of loan costs   | (8,377)                 | (2,314)     |
| Net cash provided by financing activities                                       | 38,584                  | 69,885      |
| Net increase in cash and cash equivalents                                       | 8,804                   | 16,090      |
| Cash and cash equivalents, beginning of period                                  | 14,231                  | 18,597      |



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|   |           |           |
|---|-----------|-----------|
| Cash and cash equivalents, end of period            | \$ 23,035 | \$ 34,687 |
| Supplemental Cash Flow Information:                 |           |           |
| Cash paid for interest, net of capitalized interest | \$ 14,599 | \$ 13,602 |
| Cash paid for income taxes                          | \$ 36     | \$ 155    |
| Non-cash items:                                     |           |           |
| Construction in process accruals                    | \$ 319    | \$ 17,884 |

See accompanying notes to the condensed consolidated financial statements.

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

**1. ORGANIZATION**

The terms Great Wolf Resort®, us, we and our are used in this report to refer to Great Wolf Resorts, Inc. and its consolidated subsidiaries.

**Business Summary**

We are a family entertainment resort company. 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 300 to 600 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.

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, ice cream shop and confectionery, full-service spa, game arcade, gift shop, miniature golf, interactive game attraction and meeting space. We also generate revenues from licensing arrangements, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of resorts. As of June 30, 2009, we operate and/or license eleven Great Wolf Lodge resorts (our signature Northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

|                         | Ownership<br>Percentage | Opened/<br>Opening | Number<br>Of<br>Guest<br>Suites | Number<br>Of<br>Condo<br>Units<br>(1) | Indoor<br>Entertainment<br>Area (2)<br>(Approx. ft <sup>2</sup> ) |
|-------------------------|-------------------------|--------------------|---------------------------------|---------------------------------------|---|
| Wisconsin Dells, WI (3) | 30.26%                  | 1997               | 308                             | 77                                    | 102,000   |
| Sandusky, OH (3)        | 30.26%                  | 2001               | 271                             |                                       | 41,000  |
| Traverse City, MI       | 100%                    | 2003               | 280                             |                                       | 57,000  |
| Kansas City, KS         | 100%                    | 2003               | 281                             |                                       | 57,000  |
| Sheboygan, WI           | 100%                    | 2004               | 182                             | 64                                    | 54,000  |
| Williamsburg, VA        | 100%                    | 2005               | 405                             |                                       | 87,000  |
| Pocono Mountains, PA    | 100%                    | 2005               | 401                             |                                       | 101,000   |
| Niagara Falls, ONT (4)  |                         | 2006               | 406                             |                                       | 104,000   |
| Mason, OH               | 100%                    | 2006               | 401                             |                                       | 105,000   |
| Grapevine, TX (5)       | 100%                    | 2007               | 605                             |                                       | 110,000   |
| Grand Mound, WA (6)     | 49%                     | 2008               | 398                             |                                       | 74,000  |
| Concord, NC             | 100%                    | March<br>2009      | 402                             |                                       | 97,000  |

(1) Condominium units are individually owned by third parties and are managed by us.

- (2) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children s activity room,

family tech center, MagiQuest® (an interactive game attraction) and fitness room, as well as our spa in the resorts that have such amenities.

- (3) These properties are owned by a joint venture. CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.74% interest in the joint venture, and we own a 30.26% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture's properties under long-term agreements through October 2020, subject to earlier termination in certain situations. In April 2009, we signed an agreement to sell our 30.26% joint venture interest to CNL. The sale is contingent

upon, among other things, receiving consent from the lender in the joint venture's two properties. We expect to close the sale during the third quarter of 2009.

(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 managed the resort on behalf of Ripley through April 2009.

(5) In late 2007, we began construction on an additional 203 suites and 20,000 square feet of meeting space as an expansion of this resort. The meeting space, along with 92 rooms, was opened in December 2008, with the rest of the rooms completed and opened in January 2009.

- (6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We operate the property and license the Great Wolf Lodge brand to the property under long-term agreements through April 2057, subject to earlier termination in certain situations. The joint venture leases the land for the resort from the United States Department of Interior, which is trustee for Chehalis.

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

*General* We have prepared these unaudited condensed consolidated interim financial statements according to the rules and regulations of the Securities and Exchange Commission (SEC). 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. The December 31, 2008 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. 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, 2008.

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

revenues 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. Further, in connection with preparation of the condensed consolidated interim financial statements and in accordance with the recently issued Statement of Financial Accounting Standards (SFAS) 165 Subsequent Events, we evaluated subsequent events after the balance sheet date of June 30, 2009 through August 5, 2009.

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. A reclassification of accounts payable unconsolidated affiliates which was initially included in accrued expenses unconsolidated affiliates occurred in the condensed consolidated balance sheet as well as a reclassification of bad debt expense that was initially included in accounts receivable and other assets in the condensed consolidated statements of cash flow.

*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.

*Investments In and Advances to Unconsolidated 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. Periodically we may make advances to our affiliates.

*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.

*Fair Value of Financial Instruments* Effective for the interim reporting period ended June 30, 2009, we adopted FSP 107-1 and Accounting Principles Board Opinion 28-1, Interim Disclosures About Fair Value of Financial Instruments, which require disclosures about fair value of financial instruments whenever summarized financial information for interim reporting periods is presented. The carrying amounts related to cash and cash equivalents, other current assets, escrows, accounts payable, gift certificates payable and accrued expenses approximate fair value due to the relatively short maturities of such instruments. As of June 30, 2009, we estimate the total fair value of our long-term debt to be \$162,447 less than its total carrying value due to the terms of the existing debt being different than those terms currently available to us for indebtedness with similar risks and remaining maturities. These fair value estimates have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair values may differ significantly.

*Comprehensive Income* We record unrealized gain and loss on interest rate swaps in accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, which requires the effective portion of the swap's gain or loss to be initially reported as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

*Segments* We have two reportable segments:

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

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

The following summarizes significant financial information regarding our segments:

|  | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-Party<br/>Management</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|--|--|--|--------------|--|
| <b>Three months ended June 30, 2009</b>                                    |  |  |              |  |
| Revenues   | \$ 61,775                                  | \$ 6,850                                     | \$           | \$ 68,625                                      |
| Depreciation and amortization  | (14,474)                                   |  | (156)        | (14,630)                                       |
| Operating income (loss)  | (777)                                      | 1,612  | (1,416)      | (581)  |
| Investment income - affiliates   |  |  |              | (336)  |
| Interest income  |  |  |              | (148)  |
| Interest expense   |  |  |              | 8,777  |
| Loss before income taxes and equity in losses of unconsolidated affiliates |  |  |              | \$ (8,874)                                     |
| Additions to long-lived assets   | 16,064                                     |  | 104          | \$ 16,168                                      |



|                                       | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-Party<br/>Management</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|---------------------------------------|--|--|--------------|--|
| <b>Six months ended June 30, 2009</b> |  |  |              |  |
| Revenues                              | \$ 116,987                                 | \$ 13,945                                    | \$           | \$ 130,932                                     |
| Depreciation and amortization         | (26,845)                                   |  | (371)        | (27,216)                                       |
| Operating income (loss)               | (3,659)                                    | 3,425  | (2,797)      | (3,031)  |
|                                       | 8  |  |              |  |

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|  | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-Party<br/>Management</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|--|--|--|--------------|--|
| Investment income affiliates   |  |  |              | (720)  |
| Interest income  |  |  |              | (336)  |
| Interest expense   |  |  |              | 15,044   |
| Loss before income taxes and equity in losses of unconsolidated affiliates |  |  |              | \$ (17,019)                                    |
| Additions to long-lived assets   | 45,619                                     |  | 227          | \$ 45,846                                      |
| Total assets   | 754,162                                    | 2,459  | 106,445      | \$ 863,066                                     |

|  | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-Party<br/>Management</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|--|--|--|--------------|--|
| <b>Three months ended June 30, 2008</b>                                    |  |  |              |  |
| Revenues   | \$ 55,286                                  | \$ 7,732                                     | \$           | \$ 63,018                                      |
| Depreciation and amortization  | (11,531)                                   |  | (210)        | (11,741)                                       |
| Operating income (loss)  | 1,571                                      | 2,164  | (3,684)      | 51   |
| Investment income affiliates   |  |  |              | (553)  |
| Interest income  |  |  |              | (409)  |
| Interest expense   |  |  |              | 6,884  |
| Loss before income taxes and equity in losses of unconsolidated affiliates |  |  |              | \$ (5,871)                                     |
| Additions to long-lived assets   | 35,184                                     |  | 228          | \$ 35,412                                      |

|  | <b>Resort<br/>Ownership/<br/>Operation</b> | <b>Resort<br/>Third-Party<br/>Management</b> | <b>Other</b> | <b>Totals per<br/>Financial<br/>Statements</b> |
|--|--|--|--------------|--|
| <b>Six months ended June 30, 2008</b>                                      |  |  |              |  |
| Revenues   | \$ 114,150                                 | \$ 13,076                                    | \$           | \$ 127,226                                     |
| Depreciation and amortization  | (22,376)                                   |  | (384)        | (22,760)                                       |
| Operating income (loss)  | 4,561                                      | 4,024  | (4,472)      | 4,113  |
| Investment income affiliates   |  |  |              | (1,004)  |
| Interest income  |  |  |              | (899)  |
| Interest expense   |  |  |              | 13,791   |
| Loss before income taxes and equity in losses of unconsolidated affiliates |  |  |              | \$ (7,775)                                     |

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|                                |         |       |         |            |
|--------------------------------|---------|-------|---------|------------|
| Additions to long-lived assets | 54,734  |       | 538     | \$ 55,272  |
| Total assets                   | 709,853 | 5,326 | 140,800 | \$ 855,979 |

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 investments in and advances to affiliates, and intangible assets.

*Recent Accounting Pronouncements* In September 2006, the FASB issued SFAS 157, Fair Value Measurements. 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. The adoption of SFAS 157 in 2008 did not have an impact on our results of operations or financial position. Effective January 1, 2009, SFAS 157 requires disclosure for non-financial assets and liabilities that are not measured or disclosed on a recurring basis. Our long-lived assets held for use are subject to nonrecurring measurement when certain triggering events occur. At June 30, 2009, no fair value measurements were required.

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides guidance regarding how to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this FSP did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (Revised 2007), *Business Combinations*. SFAS 141(R) significantly changes the accounting for business combinations. Under SFAS 141(R), an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141(R) also includes a substantial number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS 141(R) did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements-an Amendment of Accounting Research Bulletin No. 51*. SFAS 160 establishes new accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements separate from the parent's equity. The amount of the net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 did not have a material impact on our consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-6, *Equity Method Investment Accounting Considerations* (EITF 08-6). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008. The adoption of this EITF did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 107-1, *Interim Disclosures about Fair Value of Financial Instruments*, an amendment of FASB Statement No. 107 (FSP 107-1). FSP 107-1 requires disclosures about fair value of financial instruments in interim financial information for periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation (FIN) No. 46(R), which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. SFAS 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS 167 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. We believe the adoption of SFAS 167 will not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162. SFAS 168 will become the source of authoritative United States Generally Accepted Accounting Principles (GAAP) to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for interim quarterly periods beginning July 1, 2009. We do not expect the adoption of SFAS 168 to have an impact on our consolidated financial statements.

### 3. INVESTMENT IN AFFILIATES

#### *CNL Joint Venture*

Summary financial data for this joint venture is as follows:

|                            |  |             | <b>June 30,<br/>2009</b>                     | <b>December 31,<br/>2008</b> |
|----------------------------|--|-------------|--|------------------------------|
| <b>Balance sheet data:</b> |  |             |  |                              |
| Total assets               |  |             | \$101,940                                    | \$104,712                    |
| Total liabilities          |  |             | \$ 70,919                                    | \$ 69,612                    |
| <br>                       |  |             |  |                              |
|                            | <b>For the three months ended<br/>June 30,</b> |             | <b>For the six months ended<br/>June 30,</b> |                              |
|                            | <b>2009</b>                                    | <b>2008</b> | <b>2009</b>                                  | <b>2008</b>                  |
| <b>Operating data:</b>     |  |             |  |                              |
| Revenue                    | \$ 7,041                                       | \$ 7,006    | \$ 14,650                                    | \$ 16,368                    |
| Operating expenses         | \$(9,592)                                      | \$(10,307)  | \$(19,830)                                   | \$(21,185)                   |
| Net loss                   | \$(2,551)                                      | \$ (3,301)  | \$ (5,180)                                   | \$ (4,817)                   |

We have a receivable from the joint venture of \$2,211 and \$1,465 that relates primarily to license fees as of June 30, 2009 and December 31, 2008, respectively. At June 30, 2009 and December 31, 2008, we have reserved \$1,638 and \$1,201, respectively, against this receivable. We have a payable to the joint venture of \$1,484 and \$1,225 as of June 30, 2009 and December 31, 2008, respectively.

In April 2009, we signed an agreement to sell our 30.26% joint venture interest to CNL. The sale is contingent upon, among other things, receiving consent from the lender in the joint venture's two properties. We expect to close the sale during the third quarter of 2009.

**Grand Mound Joint Venture**

Summary financial data for this joint venture is as follows:

|                            |  |           | June 30,<br>2009                     | December 31,<br>2008 |
|----------------------------|--|-----------|--------------------------------------|----------------------|
| <b>Balance sheet data:</b> |  |           |                                      |                      |
| Total assets               |  |           | \$150,043                            | \$152,215            |
| Total liabilities          |  |           | \$116,651                            | \$118,636            |
| <br>                       |  |           |                                      |                      |
|                            | For the three months ended<br>June 30, |           | For the six months ended<br>June 30, |                      |
|                            | 2009                                   | 2008      | 2009                                 | 2008                 |
| <b>Operating data:</b>     |  |           |                                      |                      |
| Revenue                    | \$10,156                               | \$11,383  | \$20,133                             | \$13,291             |
| Operating expenses         | \$(8,718)                              | \$(9,610) | \$(17,302)                           | \$(14,282)           |
| Net loss                   | \$(22)                                 | \$(15)    | \$(186)                              | \$(3,634)            |

We have a receivable from the joint venture of \$1,779 and \$661 that relates primarily to accrued preferred equity returns as of June 30, 2009 and December 31, 2008, respectively. We have a payable to the joint venture of \$581 as of December 31, 2008; there is no similar payable as of June 30, 2009.

**4. SHARE-BASED COMPENSATION**

We account for share-based compensation in accordance with SFAS 123(R), Share-Based Payment. We recognized share-based compensation expense of \$435, and \$469, net of estimated forfeitures, for the three and six months ended June 30, 2009, respectively. The total income tax benefit recognized related to share-based compensation was \$174 and \$187 for the three and six months ended June 30, 2009, 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 June 30, 2009, total unrecognized compensation cost related to share-based compensation awards was \$2,464, which we expect to recognize over a weighted average period of approximately 3.2 years.

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,740 stock options, stock appreciation rights or shares of our common stock to employees and directors. At June 30, 2009, there were 1,104,519 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 with exercise 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 \$7 and \$14 for the three and six months ended June 30, 2009, respectively. There were no stock options granted during the three and six months ended June 30, 2009 or 2008. We recorded stock option expense of \$34 and \$96 for the three and six months ended June 30, 2008, respectively.

A summary of stock option activity during the six months ended June 30, 2009, 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 | 475,000 | \$ 17.59                                 |   |
| Granted                            |         |  |   |
| Exercised                          |         |  |   |
| Forfeited                          | (9,000) | \$ 17.00                                 |   |
| Outstanding at end of period       | 466,000 | \$ 17.60                                 | 5.59 years  |
| Exercisable at end of period       | 461,000 | \$ 17.65                                 | 5.50 years  |

There was no intrinsic value of our outstanding or exercisable stock options at June 30, 2009 or 2008.

#### *Market Condition Share Awards*

Certain officers are eligible to receive shares of our common stock in payment of market condition share awards granted to them.

We granted 541,863 and 84,748 market condition share awards during the six months ended June 30, 2009 and 2008, respectively. We recorded share-based compensation expense of \$82 and \$204 for the three and six months ended June 30, 2009, respectively, related to these grants. We recorded negative share-based compensation expense of \$140 and \$32 for the three and six months ended June 30, 2008, respectively. Included in the 2008 amounts were reversals of expense related to the resignation of a senior officer in May 2008, as the service condition of these shares was not met.

Of the 2009 market condition shares granted:

541,863 were based on our common stock's performance in 2009 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, 2009-2011. The per share fair value of these market condition shares was \$1.26 as of the grant date.

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               | 0.62%  |
| Expected stock price volatility                         | 96.51% |
| Expected stock price volatility (small-cap stock index) | 37.89% |

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 was 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.

Of the 2008 market condition shares awards granted:





84,748 were based on our common stock's performance in 2008 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, 2008-2010. The per share fair value of these market condition shares was \$1.63 as of the grant date.

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               | 2.05%  |
| Expected stock price volatility                         | 34.98% |
| Expected stock price volatility (small-cap stock index) | 20.08% |

We used an expected dividend yield of 0% as we did not pay a dividend and did not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate was 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. Due to resignation of a senior officer in May 2008, 55,046 shares were forfeited.

The market condition for these shares was not met and therefore no shares related to this grant were issued.

Of the 2007 market condition shares awards granted:

81,293 were based on our common stock's absolute performance during the three-year period 2007-2009. For shares that are earned, half of the 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 was 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. Due to the resignation of two senior officers in 2008, 58,628 shares were forfeited.

81,293 were based on our common stock's performance in 2007-2010 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. For shares that are earned, half of the 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 \$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 did not pay a dividend and did not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate was 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. Due to the resignation of two senior officers in 2008, 58,628 shares were forfeited.

#### *Performance Share Awards*

Certain officers 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 180,622 and 37,386 performance shares during the six months ended June 30, 2009 and 2008, respectively. Grantees of performance shares are eligible to receive shares of our common stock based on the achievement of certain individual and departmental performance goals during the calendar year. The per share fair value of performance shares granted during the six months ended June 30, 2009 and 2008, was \$1.54 and \$7.09, respectively, which represents the fair value of our common stock on the grant dates. We recorded share-based compensation expense of \$46 and \$92 for the three and six months ended June 30, 2009, respectively. We recorded share-based compensation expense of (\$41) and \$4 for the three and six months ended June 30, 2008, respectively, related to these grants. Included in the 2008 amounts were reversals of expense related to the resignation of a senior officer in May 2008, as the service condition of these shares was not met.

Based on our achievement of certain individual and departmental performance goals, employees earned and were issued 18,084 performance shares in February 2009 related to 2008 grants and 20,843 performance shares in February 2008 related to 2007 grants. Since all shares originally granted were not earned, we recorded a reduction in expense of \$2 and \$10 during the six months ended June 30, 2009 and 2008, respectively, related to the shares not earned.

#### *Deferred Compensation Awards*

Pursuant to their employment arrangements, certain executives received bonuses upon completion of our initial public offering (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 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we 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 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 negative share-based compensation expense of \$3 and \$352, for the three and six months ended June 30, 2009, respectively, related to these grants. We recorded negative share-based compensation of \$260 and \$704, for the three and six months ended June 30, 2008, respectively.

In 2008, one of the executives who had deferred a bonus payment as discussed above resigned from our company. As a result, we have reclassified \$2,000 previously recorded as deferred compensation to additional paid-in-capital.

#### *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 six months ended June 30, 2009 is as follows:

|  | <b>Shares</b> |    | <b>Weighted<br/>Average<br/>Grant Date Fair<br/>Value</b> |
|--|---------------|----|---|
| Non-vested shares balance at beginning of period | 300,249       | \$ | 9.29  |
| Granted  | 331,179       | \$ | 2.88  |
| Forfeited  | (27,367)      | \$ | 7.25  |
| Vested   | (78,523)      | \$ | 9.62  |
| <br>   |               |    |   |
| Non-vested shares balance at end of period       | 525,538       | \$ | 5.31  |

Our non-vested shares had no intrinsic value at June 30, 2009.

We recorded share-based expense of \$249 and \$459 for the three and six months ended June 30, 2009, respectively, related to these shares. We recorded share-based expense of \$179 and \$444 for the three and six months ended June 30, 2008, respectively.

#### *Vested Shares*

We have an annual short-term incentive plan for certain employees, which provides them the potential to earn cash bonus payments. For 2007 and 2008, certain of these employees had the option to elect to have some or all of their annual bonus compensation related to performance in those years paid in the form of shares of our common stock rather than cash. Employees making this election received shares having a market value equal to 125% of the cash they would have otherwise received. Shares issued in lieu of cash bonus payments are fully vested upon issuance.

We issued 17,532 shares in February 2009 related to 2008 bonus amounts. We valued these shares at \$32 based on the closing market value of our common stock on the date of the grant.

We issued 265,908 shares in February 2008 related to 2007 bonus amounts. These shares were valued at \$2,055 based on the closing market value of our common stock on the date of grant.

In 2008 and 2009, our directors had the option to elect to have some or the entire cash portion of their annual fees paid in the form of shares of our common stock rather than cash. Directors making this election can receive shares having a market value equal to 125% of the cash they would otherwise receive. Shares issued in lieu of cash fee payments are fully vested upon issuance. We recorded non-cash professional fees expense of \$54 for the three and six months ended June 30, 2009, related to these elections to receive shares in lieu of cash. We issued 22,286 shares in the three and six months ended June 30, 2009. We recorded non-cash professional fees expense of \$235 and \$292 for the three and six months ended June 30, 2008, respectively, related to these elections to receive shares in lieu of cash. We issued 45,704 and 52,224 shares in the three and six months ended June 30, 2008, respectively.

## **5. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

|                                   | <b>June 30,<br/>2009</b> |    | <b>December<br/>31,<br/>2008</b> |
|-----------------------------------|--------------------------|----|----------------------------------|
| Land and improvements             | \$ 60,718                | \$ | 51,684                           |
| Building and improvements         | 445,626                  |    | 353,537                          |
| Furniture, fixtures and equipment | 361,641                  |    | 315,577                          |
| Construction in process           | 480                      |    | 117,063                          |

|                               | <b>June 30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|-------------------------------|--------------------------|----------------------------------|
| Less accumulated depreciation | 868,465                  | 837,861                          |
|                               | (145,526)                | (121,688)                        |
| Property and equipment, net   | \$ 722,939               | \$ 716,173                       |

Depreciation expense was \$12,975 and \$11,216 for the three months ended June 30, 2009 and 2008, respectively. Depreciation expense was \$24,480 and \$21,809 for the six months ended June 20, 2009 and 2008, respectively.

## 6. LONG-TERM DEBT

Long-term debt consists of the following:

|   | <b>June 30,<br/>2009</b> | <b>December<br/>31,<br/>2008</b> |
|---|--------------------------|----------------------------------|
| Long-Term Debt:                         |                          |                                  |
| Traverse City/Kansas City mortgage loan | \$ 69,498                | \$ 70,211                        |
| Mason mortgage loan                     | 75,800                   | 76,800                           |
| Pocono Mountains mortgage loan          | 96,015                   | 96,571                           |
| Williamsburg mortgage loan              | 63,875                   | 64,625                           |
| Grapevine mortgage loan                 | 78,709                   | 78,709                           |
| Concord construction loan               | 77,571                   | 27,594                           |
| Junior subordinated debentures          | 80,545                   | 80,545                           |
| Other Debt:                             |                          |                                  |
| City of Sheboygan bonds                 | 8,510                    | 8,493                            |
| City of Sheboygan loan                  | 3,396                    | 3,503                            |
| Other                                   | 93                       |                                  |
|   | 554,012                  | 507,051                          |
| Less current portion of long-term debt  | (81,964)                 | (81,464)                         |
| Total long-term debt                    | \$ 472,048               | \$ 425,587                       |

*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. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2009.

*Mason Mortgage Loan* This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of June 30, 2009). The loan initially matured in November 30, 2008. On January 23, 2009, the maturity date was extended to November 30, 2009. We incurred loan fees related to the extension of this loan. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. In addition, we have provided the Mason mortgage loan lenders with a \$15,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$15,000 principal reduction of the Mason loan over the remaining term of the loan. Should there be certain liquidity-producing events, including the

sale of majority-owned equity interest in any of our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$15,000 mandatory principal reduction. We were in compliance with all covenants under this loan at June 30, 2009.

*Pocono Mountains Mortgage Loan* This loan is secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in December 2016. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2009.

*Williamsburg Mortgage Loan* This loan is secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis points with a minimum rate of 6.25% per annum (effective rate of 6.25% as of June 30, 2009). This loan matures in August 2011 and has a one-year extension available at our option, assuming the property meets an operating performance threshold. The loan has no applicable prepayment fees. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at June 30, 2009.

In conjunction with the closing of this loan, we were required to provide interest rate protection on a portion of the loan amount through the loan's maturity date. Therefore, we executed an interest rate cap in the amount of \$522 that will cap the loan at 8% interest through the loan's maturity date. This interest rate cap was designated as an ineffective cash flow hedge and we are amortizing the cost of the hedge to expense over the life of the interest rate cap.

*Grapevine Mortgage Loan* This loan is secured by our Grapevine resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (effective rate of 2.92% as of June 30, 2009). In April 2009, we notified the lender of our election to exercise an extension option which extended the loan's maturity date to July 2010 for a fee of \$197. The loan also has an additional one-year extension available at our option, provided that the property meets an operating performance threshold. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at June 30, 2009.

In December 2007, we entered into an interest rate cap that hedged our entire Grapevine loan in accordance with our original loan document. This interest rate cap matured in July 2009 and fixed the maximum annual interest rate on this loan at 10%.

*Concord Construction Loan* In April 2008 we closed on a \$63,940 construction loan to fund a portion of the total costs of our Great Wolf Lodge resort under construction in Concord. The four-year loan was potentially expandable to a maximum principal amount of up to \$79,900. The loan bears interest at a floating annual rate of LIBOR plus a spread of 310 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of June 30, 2009). The loan requires interest only payments until the one-year anniversary of the conversion date of the property and then requires monthly principal payments based on a 25-year amortization schedule. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. We were in compliance with all covenants under this loan at June 30, 2009. In January 2009, the total commitments under this loan increased from \$63,940 to \$79,900. We incurred loan fees in connection with the increase of our loan commitments.

*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 (Trust I), 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 plus a spread of 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 Trust I's common securities, representing 3% of the total capitalization of Trust I.

Trust I 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 TPS. The costs of the TPS offering totaled \$1,600, including \$1,500 of underwriting commissions and expenses and \$100 of costs incurred directly by Trust I. Trust I 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 TPS offering and our investment in Trust I, were \$48,400. We used the net proceeds to retire a construction loan.

In June 2007 we completed a private offering of \$28,125 of TPS through Great Wolf Capital Trust III (Trust III), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.90% through June 2012 and then floats at LIBOR plus a spread of 300 basis points thereafter. The securities mature in June 2017 and are callable at no premium after June 2012. In addition, we invested \$870 in the Trust's common securities, representing 3% of the total capitalization of Trust III.

Trust III used the proceeds of the offering and our investment to purchase from us \$28,995 of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The costs of the TPS offering totaled \$932, including \$870 of underwriting commissions and expenses and \$62 of costs incurred directly by Trust III. Trust III paid these costs utilizing an investment from us. These costs are being amortized over a 10-year period. The proceeds from our debenture sales, net of the costs of the TPS offering and our investment in Trust III, were \$27,193. We used the net proceeds for development costs.

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

Based on the foregoing accounting authority, our consolidated financial statements present the debentures issued to the Trusts as long-term debt. Our investments in the Trusts are accounted as cost investments and are included in other assets on our consolidated balance sheet. For financial reporting purposes, we record interest expense on the corresponding debentures in our condensed 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 91-10, we have recognized as a liability the obligations for the BANs. We have an obligation to fund certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028, which obligation is indirectly related to the payments by the City on the BANs.

*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/>June 30,</b> |                   |
| 2010                        | \$ 81,964         |
| 2011                        | 8,894             |
| 2012                        | 214,363           |
| 2013                        | 3,538             |
| 2014                        | 3,818             |
| Thereafter                  | 241,435           |
| <b>Total</b>                | <b>\$ 554,012</b> |



**7. COMPREHENSIVE INCOME**

SFAS 130, Reporting Comprehensive Income, requires the disclosure of the components included in comprehensive income. For the three and six months ended June 30, 2008, we recorded comprehensive (loss)/income, net of tax of approximately \$(356) and \$51, related to unrealized (gain)/ loss on our interest rate swap. We had no similar amount for the three and six months ended June 30, 2009.

**8. EARNINGS PER SHARE**

We calculate our basic earnings per common share by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding. Our diluted earnings per common share assume 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 11,765 shares of our common stock. In accordance with the provisions of EITF 97-14, 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.

Options to purchase 466,000 shares of common stock were not included in the computations of diluted earnings per share for the three and six months ended June 30, 2009, because the exercise prices of the options were greater than the average market price of the common shares during that period. There were 767,825 shares of common stock that were not included in the computation of diluted earnings per share for the six months ended June 30, 2009, because the market and/or performance criteria related to these shares had not been met at June 30, 2009.

Basic and diluted earnings per common share are as follows:

|  | Three months ended |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30,           |            | June 30,         |            |
|  | 2009               | 2008       | 2009             | 2008       |
| Net loss   | \$ (5,706)         | \$ (4,090) | \$ (11,351)      | \$ (6,417) |
| Weighted average common shares outstanding basic   | 31,263,487         | 30,875,615 | 31,123,072       | 30,770,388 |
| Weighted average common shares outstanding diluted | 31,263,487         | 30,875,615 | 31,123,072       | 30,770,388 |
| Net loss per share basic                           | \$ (0.18)          | \$ (0.13)  | \$ (0.36)        | \$ (0.21)  |
| Net loss per share diluted                         | \$ (0.18)          | \$ (0.13)  | \$ (0.36)        | \$ (0.21)  |

**9. SUBSEQUENT EVENTS**

On July 31, 2009, we executed amendments to our Mason and Grapevine mortgage loans that provide for the following:

The maturity date of each loan is extended to July 1, 2011.

Required principal paydowns on the Mason loan are set at \$1,000 each quarter in 2009, and \$2,000 each quarter in 2010 and 2011.

Required principal paydowns on the Grapevine loan are set at \$800 each quarter in 2009, 2010 and 2011.

We have provided the Mason mortgage loan lenders with a \$30,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$30,000 principal reduction of the Mason loan (in addition to the quarterly

required principal payments, as described above) over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of an equity interest in any of our majority-owned resorts or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$30,000 mandatory principal reduction.

Payment quarterly of a variable fee of 0.25% of the principal balance outstanding on the Mason mortgage.

The interest rate on the Grapevine loan is adjusted to a floating rate of LIBOR plus a spread of 400 basis points, with a minimum rate of 7.00% per annum.

The interest rate on the Mason loan is maintained at a floating rate of LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum.

## **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. and its consolidated subsidiaries.

*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 300 to 600 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 and snack bars, ice cream shop and confectionery, full-service spa, kids spa, game arcade, gift shops, MagiQuest (an interactive game attraction), mini golf, gr8\_space and meeting space. We also generate revenues from licensing arrangements, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of resorts. As of June 30, 2009, we operate and/or license eleven Great Wolf Lodge resorts (our signature Northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

|                         | <b>Ownership<br/>Percentage</b> | <b>Opened/<br/>Opening</b> | <b>Number<br/>of<br/>Guest<br/>Suites</b> | <b>Number of<br/>Condo<br/>Units (1)</b> | <b>Indoor<br/>Entertainment<br/>Area (2)<br/>(Approx. ft<sup>2</sup>)</b> |
|-------------------------|---------------------------------|----------------------------|---|--|---|
| Wisconsin Dells, WI (3) | 30.26%                          | 1997                       | 308                                       | 77                                       | 102,000   |
| Sandusky, OH (3)        | 30.26%                          | 2001                       | 271                                       |  | 41,000  |
| Traverse City, MI       | 100%                            | 2003                       | 280                                       |  | 57,000  |
| Kansas City, KS         | 100%                            | 2003                       | 281                                       |  | 57,000  |
| Sheboygan, WI           | 100%                            | 2004                       | 182                                       | 64                                       | 54,000  |
| Williamsburg, VA        | 100%                            | 2005                       | 405                                       |  | 87,000  |
| Pocono Mountains, PA    | 100%                            | 2005                       | 401                                       |  | 101,000   |
| Niagara Falls, ONT (4)  |                                 | 2006                       | 406                                       |  | 104,000   |
| Mason, OH               | 100%                            | 2006                       | 401                                       |  | 105,000   |
| Grapevine, TX (5)       | 100%                            | 2007                       | 605                                       |  | 110,000   |
| Grand Mound, WA (6)     | 49%                             | 2008                       | 398                                       |  | 74,000  |
| Concord, NC (7)         | 100%                            | March<br>2009              | 402                                       |  | 97,000  |

(1) Condominium units are individually owned by third parties and are managed by us.

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

(3) These properties are owned by a joint venture. CNL Lifestyle

Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.74% interest in the joint venture, and we own a 30.26% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture s properties under long-term agreements through October 2020, subject to earlier termination in certain situations. In April 2009, we signed an agreement to sell our 30.26% joint venture interest to CNL. The sale is contingent upon receiving, among other things, consent from the lender in the joint venture s two properties. We expect to close the sale during the third quarter of 2009.

- (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 managed the resort on behalf of Ripley through April 2009.

- (5) In late 2007, we began construction on an additional 203 suites and 20,000 square feet of meeting space as an expansion of this resort. The meeting space, along with 92 rooms, was opened in December 2008, with the rest of the rooms completed and opened in January 2009.
- (6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We operate the property and license the Great Wolf Lodge

brand to the  
property under  
long-term  
agreements  
through  
April 2057,  
subject to earlier  
termination in  
certain  
situations. The  
joint venture  
leases the land  
for the resort  
from the United  
States  
Department of  
the Interior,  
which is trustee  
for Chehalis.

*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 since 1987. 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 there are 132 open indoor waterpark indoor waterpark resort properties in the United States and Canada. Of the total, 46 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 46 properties, 11 are Great Wolf Resorts properties. The same survey indicated 13 openings of indoor waterpark resorts projected for 2009. The 2009 openings include only two indoor waterpark destination resorts, one of which is our property in Concord, North Carolina.

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 that they can drive to have 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 us has established a portfolio of family entertainment resorts that feature indoor waterparks. We intend to continue to expand our portfolio of resorts throughout the United States and to selectively seek licensing and management opportunities domestically and internationally. The resorts we plan to develop in the future require significant industry knowledge and substantial capital resources. Similar family entertainment resorts compete directly with several of our resorts.

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 by targeting 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 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.

Our business model is highly dependent on consumer spending, and a vacation experience at one of our resorts is a discretionary expenditure for a family. Over the past two years, the slowing U.S. economy has led to a decrease in credit for consumers and a related decrease in consumer discretionary spending. This trend continued through the second quarter of 2009 as consumers experienced several negative economic impacts, including:

severe turbulence in the banking and lending sectors, which has led to a general lessening of the availability of credit to consumers;

an increased national unemployment rate;

a continuing decline in the national average of home prices; and

high volatility in the stock market that led to substantial declines in leading market averages and aggregate household savings.

These and other factors impact the amount of discretionary income for consumers and consumer sentiment toward discretionary purchases. As a result, these types of items could negatively impact consumer spending in future periods. While we believe the convenience, quality and overall affordability of a stay at one of our resorts continues to be an attractive alternative to other potential family vacations, a sustained decrease in overall consumer discretionary spending could have a material, adverse effect on our overall results. Also:

We believe that our Traverse City and Sandusky resorts have been and will continue to be affected by especially adverse general economic circumstances in the Michigan/Northern 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 few years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts' largest origin 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 few years and may continue to do so going forward. Although we have taken steps to reduce our operating costs at these resorts, we believe the general regional economic downturn has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts.

Our Wisconsin Dells property has been significantly impacted by the abundance of competing indoor waterpark resorts in that market. The Wisconsin Dells market has approximately 16 indoor waterpark resorts that compete with us. We believe this large number of competing properties in a relatively small tourist destination location has and will likely continue to have an impact on the operating performance of our Wisconsin Dells resort.

We have experienced much lower-than-expected occupancy 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 materially behind our initial expectations. We believe this has materially impacted and will likely continue to impact the consumer demand for our indoor waterpark resort in that market and the operations of the resort.

Our Mason resort opened its first phase in December 2006 and has experienced lower-than-expected occupancy and lower-than-expected average daily room rates. We believe this is due, in part, to the opening of competitive properties in the region.

Our external growth strategies are based primarily on developing additional indoor waterpark resorts (in conjunction with joint venture partners) or by licensing our intellectual property and proprietary systems to others. Developing resorts of the size and scope of our family entertainment resorts generally requires obtaining financing for a significant portion of a project's expected construction costs. The general tightening in U.S. lending markets has dramatically decreased the overall availability of construction financing.

Although the ultimate effect on our external growth strategy of the current credit environment is difficult to predict with certainty, we believe that the availability to us and other investors of construction financing may be lessened in the future and that terms of construction financing may be less favorable than we have seen historically. We believe that we and other investors may be able to continue to obtain construction financing sufficient to execute



development strategies; however, the more difficult credit market environment is likely to continue at least through 2009, and possibly beyond.

*Revenue and Key Performance Indicators.* We seek to generate positive cash flows and maximize our return on invested capital 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 consolidated resort revenue for the six months ended June 30, 2009. 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. 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 RevPOR 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 six months ended June 30, 2009, approximately 34% of our total consolidated 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 we believe 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 we believe 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 generally, in a greater increase in profitability.

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 (GAAP). See Non-GAAP Financial Measures below for further discussion of our use of EBITDA and a reconciliation to net income.

#### **Critical Accounting Policies and Estimates**

This discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unconsolidated financial statements, as well as revenue and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from those estimates under different assumptions or conditions.

For a description of our critical accounting policies and estimates, please refer to Critical Accounting Policies and Estimates section of our Management's Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes in any of our accounting policies since December 31, 2008.

#### **Recent Accounting Pronouncements**

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. 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. The adoption of SFAS 157 in 2008 did not have an impact on our results of operations or financial position. Effective January 1, 2009, SFAS 157 requires disclosure for non-financial assets and liabilities that are not measured or disclosed on a recurring basis. Our long-lived assets held for use are subject to nonrecurring measurement when certain triggering events occur. At June 30, 2009, no fair value measurements were required.

In April 2009, the FASB issued FASB Staff Position (FSP) SFAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* (FSP 157-4). FSP 157-4 provides guidance regarding how to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. FSP 157-4 is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this FSP did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141 (Revised 2007), *Business Combinations*. SFAS 141(R) significantly changes the accounting for business combinations. Under SFAS 141(R), an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS 141(R) also includes a substantial number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The adoption of SFAS 141(R) did not have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 160, *Non-controlling Interests in Consolidated Financial Statements-an Amendment of Accounting Research Bulletin No. 51*. SFAS 160 establishes new accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements separate from the parent's equity. The amount of the net income attributable to the non-controlling interest will be included in consolidated net income on the face of the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. The adoption of SFAS 160 did not have a material impact on our consolidated financial statements.

In April 2008, the FASB issued FSP SFAS 142-3, *Determination of the Useful Life of Intangible Assets* (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142, *Goodwill and Other Intangible Assets*. FSP 142-3 is effective for fiscal years beginning after December 15, 2008. The adoption of FSP 142-3 did not have a material impact on our consolidated financial statements.

In November 2008, the FASB ratified Emerging Issues Task Force (EITF) Issue No. 08-6, *Equity Method Investment Accounting Considerations* (EITF 08-6). EITF 08-6 clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for fiscal years beginning after December 15, 2008. The adoption of this EITF did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 107-1, *Interim Disclosures about Fair Value of Financial Instruments*, an amendment of FASB Statement No. 107 (FSP 107-1). FSP 107-1 requires disclosures about fair value of financial instruments in interim financial information for periods ending after June 15, 2009. The adoption of this FSP did not have a material impact on our consolidated financial statements.

In May 2009, the FASB issued SFAS 165, *Subsequent Events*. SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued. The adoption of SFAS 165 did not impact our financial position or results of operations. In connection with preparation of

the condensed consolidated interim financial statements we evaluated subsequent events after the balance sheet date of June 30, 2009 through August 4, 2009.

In June 2009, the FASB issued SFAS 167, Amendments to FASB Interpretation (FIN) No. 46(R), which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity's purpose and design and the reporting entity's ability to direct the activities of the other entity that most significantly impact the other entity's economic performance. SFAS 167 will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity's financial statements. SFAS 167 is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. We believe the adoption of SFAS 167 will not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162. SFAS 168 will become the source of authoritative United States Generally Accepted Accounting Principles (GAAP) to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. The Codification will supersede all non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. SFAS 168 is effective for interim quarterly periods beginning July 1, 2009. We do not expect the adoption of SFAS 168 to have an impact on our consolidated financial statements.

#### **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 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 loss to EBITDA for the periods presented.

|  | <b>Three months ended</b> |             | <b>Six months ended</b> |             |
|--|---------------------------|-------------|-------------------------|-------------|
|  | <b>June 30,</b>           |             | <b>June 30,</b>         |             |
|  | <b>2009</b>               | <b>2008</b> | <b>2009</b>             | <b>2008</b> |
| Net loss                                 | \$ (5,706)                | \$ (4,090)  | \$ (11,351)             | \$ (6,417)  |
| Adjustments:                             |                           |             |                         |             |
| Interest expense, net of interest income | 8,629                     | 6,475       | 14,708                  | 12,892      |
| Income tax benefit                       | (3,966)                   | (2,410)     | (7,523)                 | (4,115)     |
| Depreciation and amortization            | 14,630                    | 11,741      | 27,216                  | 22,760      |
| EBITDA                                   | \$ 13,587                 | \$ 11,716   | \$ 23,050               | \$ 25,120   |

## Results of Operations

### *General*

Our financial information includes:

our subsidiary entity that provides resort development and management/licensing services;

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

our equity interests in three resorts in which we have ownership interests but which we do not 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. 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;

depreciation and amortization; and

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

***Three months ended June 30, 2009, compared with the three months ended June 30, 2008***

The following table shows key operating statistics for our resorts for the three months ended June 30, 2009 and 2008:

|                     | Three<br>months<br>ended<br>June 30,<br>2009 | All Properties (a)                        |           |         |
|---------------------|--|---|-----------|---------|
|                     |  | Three<br>months<br>ended<br>June 30, 2008 | Decrease  |         |
|                     |  |   | \$        | %       |
| <b>Occupancy</b>    | 61.5%  | 67.2%                                     | N/A       | (8.5)%  |
| <b>ADR</b>          | \$231.29                                     | \$ 235.31                                 | \$ (4.02) | (1.7)%  |
| <b>RevPAR</b>       | \$142.36                                     | \$ 158.09                                 | \$(15.73) | (10.0)% |
| <b>Total RevPOR</b> | \$360.23                                     | \$ 366.41                                 | \$ (6.18) | (1.7)%  |
| <b>Total RevPAR</b> | \$221.72                                     | \$ 246.17                                 | \$(24.45) | (9.9)%  |

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

|                     | Three<br>months<br>ended<br>June 30,<br>2009 | Same Store Comparison (b)                 |            |        |
|---------------------|--|---|------------|--------|
|                     |  | Three<br>months<br>ended<br>June 30, 2008 | Decrease   |        |
|                     |  |   | \$         | %      |
| <b>Occupancy</b>    | 61.7%  | 66.2%                                     | N/A        | (6.8)% |
| <b>ADR</b>          | \$226.99                                     | \$ 230.89                                 | \$ (3.90)  | (1.7)% |
| <b>RevPAR</b>       | \$139.95                                     | \$ 152.93                                 | \$ (12.98) | (8.5)% |
| <b>Total RevPOR</b> | \$353.08                                     | \$ 358.89                                 | \$ (5.81)  | (1.6)% |
| <b>Total RevPAR</b> | \$217.69                                     | \$ 237.71                                 | \$ (20.02) | (8.4)% |

(b) Same store comparison includes properties that were open for the full periods and with comparable number of rooms in 2009 and 2008 (that is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, Poconos, Niagara Falls, Mason and Grand Mound resorts).

We believe that consistent with other hospitality and entertainment companies' experience in 2009, the decreases in occupancy and RevPAR were due in part to the effect of the overall economic downturn on consumer discretionary spending.

Presented below are selected amounts from the statements of operations for the three months ended June 30, 2009 and 2008:

|                     | Three months ended<br>June 30, |          | Increase/<br>(Decrease) |
|---------------------|--------------------------------|----------|-------------------------|
|                     | 2009                           | 2008     |                         |
| Revenues            | \$68,625                       | \$63,018 | \$ 5,607                |
| Operating expenses: |                                |          |                         |



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|  |         |         |         |
|--|---------|---------|---------|
| Departmental operating expenses          | 23,237  | 20,879  | 2,358   |
| Selling, general and administrative      | 16,987  | 16,694  | 293     |
| Property operating costs                 | 9,114   | 8,085   | 1,029   |
| Depreciation and amortization            | 14,630  | 11,741  | 2,889   |
| Net operating (loss) income              | (581)   | 51      | (632)   |
| Interest expense, net of interest income | 8,629   | 6,475   | 2,154   |
| Income tax benefit                       | (3,635) | (2,232) | (1,403) |
| Net loss                                 | (5,706) | (4,090) | (1,616) |

*Revenues.* Total revenues increased due to the following:

A shift of the Easter holiday from the first quarter in 2008 to the second quarter in 2009, resulting in a shifting of much of the holiday and school spring break-related travel from the first quarter in 2008 to the second quarter in 2009;

An increase in revenue from our Grapevine resort, due to the completion of its expansion in early 2009;

An increase in revenue from our Concord resort, which opened in March 2009.

This increase was partially offset by decreases in revenues at some of our resorts due to the overall downturn on consumer discretionary spending.

*Operating expenses.* Total operating expenses increased primarily due to the opening of our Concord resort in March 2009, as well as our expansion at our Grapevine resort, which was completed in January 2009.

Departmental expenses increased by \$2,358 for the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, due primarily to the opening of our Concord resort.

Total selling, general and administrative expenses increased by \$293 in three months ended June 30, 2009, as compared to the three months ended June 30, 2008, due primarily to the opening of our Concord resort. This increase was partially offset by a decrease in corporate selling, general and administrative expense due primarily to a decrease in labor costs. Separation costs for former officers of \$1,258 were recorded in the three months ended June 30, 2008; there were no similar costs in the three months ended June 30, 2009.

Opening-related costs (included in total property operating costs) related to our resorts were \$1,339 for the three months ended June 30, 2009, as compared to \$368 for the three months ended June 30, 2008, due primarily to the opening of our Concord resort in March 2009.

Total depreciation and amortization increased for the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, primarily due to the expansion of our Grapevine resort as well as the opening of our Concord resort.

*Net operating income (loss).* During the three months ended June 30, 2009, we had net operating loss of \$581 as compared to a net operating income of \$51 for the three months ended June 30, 2008.

*Net loss.* Net loss increased due to:

An increase in net operating loss of \$632 for the three months ended June 30, 2009, as compared to the three months ended June 30, 2008, and

An increase in net interest expense of \$2,154, mainly due to interest expense on our Concord loan.

These amounts were partially offset by an increase of \$1,403 in income tax benefit recorded in the three months ended June 30, 2009, as compared to the three months ended June 30, 2008.

***Six months ended June 30, 2009, compared with the six months ended June 30, 2008***

The following table shows key operating statistics for our resorts for the six months ended June 30, 2009 and 2008:

|              | Six months ended<br>June 30,<br>2009 | All Properties (a)                |                     |         |
|--------------|--------------------------------------|-----------------------------------|---------------------|---------|
|              |                                      | Six months ended<br>June 30, 2008 | Increase (Decrease) |         |
|              |                                      |                                   | \$                  | %       |
| Occupancy    | 60.4%                                | 65.6%                             | N/A                 | (7.9)%  |
| ADR          | \$240.92                             | \$ 251.03                         | \$(10.11)           | (4.0)%  |
| RevPAR       | \$145.55                             | \$ 164.72                         | \$(19.17)           | (11.6)% |
| Total RevPOR | \$373.58                             | \$ 387.76                         | \$(14.18)           | (3.7)%  |
| Total RevPAR | \$225.70                             | \$ 254.44                         | \$(28.74)           | (11.3)% |

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

|              | Six months ended<br>June 30,<br>2009 | Same Store Comparison (b)         |                     |         |
|--------------|--------------------------------------|-----------------------------------|---------------------|---------|
|              |                                      | Six months ended<br>June 30, 2008 | Increase (Decrease) |         |
|              |                                      |                                   | \$                  | %       |
| Occupancy    | 60.3%                                | 64.4%                             | N/A                 | (6.4)%  |
| ADR          | \$234.39                             | \$ 247.03                         | \$(12.64)           | (5.1)%  |
| RevPAR       | \$141.32                             | \$ 159.00                         | \$(17.68)           | (11.1)% |
| Total RevPOR | \$359.52                             | \$ 376.78                         | \$(17.26)           | (4.6)%  |
| Total RevPAR | \$216.77                             | \$ 242.52                         | \$(25.75)           | (10.6)% |



- (b) Same store comparison includes properties that were open for the full periods and with comparable number of rooms in 2009 and 2008 (that is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, Poconos, Niagara Falls and Mason resorts).

We believe that consistent with other hospitality and entertainment companies' experience in 2009, the decreases in occupancy and RevPAR were due in part to the effect of the overall economic downturn on consumer discretionary spending.

Presented below are selected amounts from the statements of operations for the six months ended June 30, 2009 and 2008:

|   | <b>Six months ended</b> |             |                                 |
|---|-------------------------|-------------|---------------------------------|
|   | <b>June 30,</b>         |             |                                 |
|   | <b>2009</b>             | <b>2008</b> | <b>Increase/<br/>(Decrease)</b> |
| Revenues  | \$ 130,932              | \$ 127,226  | \$ 3,706                        |
| Operating expenses:                                       |                         |             |                                 |
| Departmental operating expenses                           | 42,949                  | 41,296      | 1,653                           |
| Selling, general and administrative                       | 31,631                  | 30,092      | 1,539                           |
| Property operating costs                                  | 21,456                  | 19,914      | 1,542                           |
| Depreciation and amortization                             | 27,216                  | 22,760      | 4,456                           |
| Net operating (loss) income                               | (3,031)                 | 4,113       | (7,144)                         |
| Interest expense, net of interest income                  | 14,708                  | 12,892      | 1,816                           |
| Income tax benefit  | (6,783)                 | (3,037)     | (3,746)                         |
| Equity in losses of unconsolidated affiliates, net of tax | 1,115                   | 1,679       | (564)                           |
| Net loss  | (11,351)                | (6,417)     | (4,934)                         |

*Revenues.* Total revenues increased due to an increase in revenues from our Grapevine resort, due to the completion of their expansion in early 2009, and an increase in revenue from our Concord resort, which opened in March 2009.

This increase was partially offset by decreases in revenues at some of our resorts due to the overall downturn on consumer discretionary spending.

*Operating expenses.* Total operating expenses increased primarily due to the opening of our Concord resort in March 2009, as well as our expansion at our Grapevine resort, which was completed in January 2009.

Departmental expenses increased by \$1,653 for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, due primarily to the opening of our Concord resort.

Total selling, general and administrative expenses increased by \$1,539 in six months ended June 30, 2009, as compared to the six months ended June 30, 2008, due primarily to the opening of our Concord resort and the expansion of our Grapevine resort. This increase was partially offset by a decrease in corporate selling, general and administrative expense related to labor costs. Separation costs for former officers of \$1,258 were recorded in the six months ended June 30, 2008; there were no similar costs in the six months ended June 30, 2009.

Opening-related costs (included in total property operating costs) related to our resorts were \$5,583 for the six months ended June 30, 2009, as compared to \$3,948 for the six months ended June 30, 2008, due primarily to the expansion of our Grapevine resort in early 2009 and the opening of our Concord resort in March 2009.

Total depreciation and amortization increased for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, primarily due to the expansion of our Grapevine resort, as well as the opening of our Concord resort.

*Net operating income (loss).* During the six months ended June 30, 2009, we had net operating loss of \$(3,031) as compared to a net operating income of \$4,113 for the six months ended June 30, 2008.

*Net loss.* Net loss increased due to:

The decrease in operating income from \$4,113 for the six months ended June 30, 2008 to an operating loss of \$(3,031) for the six months ended June 30, 2009; and

An increase in net interest expense of \$1,816 mainly due to interest expense on our Concord loan;

These amounts were partially offset by:

An increase of \$3,746 in income tax benefit recorded in the six months ended June 30, 2009, as compared to the six months ended June 30, 2008; and

A decrease in equity in losses of unconsolidated affiliates, net of tax, due to our resort in Grand Mound, which opened in March 2008. During the six months ended June 30, 2008, the loss included opening-related costs. There were no similar opening-related costs in the six months ended June 30, 2009.

### Segments

We have two reportable segments in 2009 and 2008:

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

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

See our Segments section in our Summary of Significant Accounting Policies, in Note 2 of our condensed consolidated financial statements.

|                                 | Three months ended<br>June 30, |          |                          | Six months ended<br>June 30, |           |                          |
|---------------------------------|--------------------------------|----------|--------------------------|------------------------------|-----------|--------------------------|
|                                 | 2009                           | 2008     | Increase /<br>(Decrease) | 2009                         | 2008      | Increase /<br>(Decrease) |
| <b>Resort</b>                   |                                |          |                          |                              |           |                          |
| <b>Ownership/Operation</b>      |                                |          |                          |                              |           |                          |
| Revenues                        | \$61,775                       | \$55,286 | \$6,489                  | \$116,987                    | \$114,150 | \$ 2,837                 |
| EBITDA, excluding certain items | 13,697                         | 13,102   | 595                      | 23,185                       | 26,936    | (3,751)                  |
| <b>Resort Third-Party Mgmt</b>  |                                |          |                          |                              |           |                          |
| Revenues                        | 6,850                          | 7,732    | (882)                    | 13,945                       | 13,076    | 869                      |
| EBITDA, excluding certain items | 1,612                          | 2,164    | (552)                    | 3,425                        | 4,024     | (599)                    |
| <b>Other</b>                    |                                |          |                          |                              |           |                          |
| Revenues                        |                                |          |                          |                              |           |                          |
| EBITDA, excluding certain items | (1,260)                        | (3,474)  | 2,214                    | (2,426)                      | (4,087)   | 1,661                    |

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 \$554,012 and \$507,051 as of June 30, 2009, and December 31, 2008, respectively, summarized as follows:

|   | June 30,<br>2009 | December<br>31,<br>2008 |
|---|------------------|-------------------------|
| Long-Term Debt:                         |                  |                         |
| Traverse City/Kansas City mortgage loan | \$ 69,498        | \$ 70,211               |
| Mason mortgage loan                     | 75,800           | 76,800                  |
| Pocono Mountains mortgage loan          | 96,015           | 96,571                  |
| Williamsburg mortgage loan              | 63,875           | 64,625                  |
| Grapevine mortgage loan                 | 78,709           | 78,709                  |
| Concord construction loan               | 77,571           | 27,594                  |
| Junior subordinated debentures          | 80,545           | 80,545                  |
| Other Debt:                             |                  |                         |
| City of Sheboygan bonds                 | 8,510            | 8,493                   |
| City of Sheboygan loan                  | 3,396            | 3,503                   |
| Other                                   | 93               |                         |
|   | 554,012          | 507,051                 |
| Less current portion of long-term debt  | (81,964)         | (81,464)                |
| Total long-term debt                    | \$ 472,048       | \$ 425,587              |

*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. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2009.

*Mason Mortgage Loan* This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of June 30, 2009). The loan initially matured in November 30, 2008. On January 23, 2009, the maturity date was extended to November 30, 2009. We incurred loan fees related to the extension of this loan. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. In addition, we have provided the Mason mortgage loan lenders with a \$15,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$15,000 principal reduction of the Mason loan over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of majority-owned equity interest in any of our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$15,000 mandatory principal reduction. We were in compliance with all covenants under this loan at June 30, 2009.

*Pocono Mountains Mortgage Loan* This loan is secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in December 2016. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2009.

*Williamsburg Mortgage Loan* This loan is secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis points with a minimum rate of 6.25% per annum (effective rate of 6.25%



as of June 30, 2009). This loan matures in August 2011 and has a one-year extension available at our option, assuming the property meets an operating performance threshold. The loan has no applicable prepayment fees. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at June 30, 2009.

In conjunction with the closing of this loan, we were required to provide interest rate protection on a portion of the loan amount through the loan's maturity date. Therefore, we executed an interest rate cap in the amount of \$522 that will cap the loan at 8% interest through the loan's maturity date. This interest rate cap was designated as an ineffective cash flow hedge and we are amortizing the cost of the hedge to expense over the life of the interest rate cap.

*Grapevine Mortgage Loan* This loan is secured by our Grapevine resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (effective rate of 2.92% as of June 30, 2009). In April 2009, we notified the lender of our election to exercise an extension option which extended the loan's maturity date to July 2010 for a fee of \$197. The loan also has an additional one-year extension available at our option, provided that the property meets an operating performance threshold. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at June 30, 2009.

In December 2007, we entered into an interest rate cap that hedged our entire Grapevine loan in accordance with our original loan document. This interest rate cap matured in July 2009 and fixed the maximum annual interest rate on this loan at 10%.

*Concord Construction Loan* In April 2008 we closed on a \$63,940 construction loan to fund a portion of the total costs of our Great Wolf Lodge resort under construction in Concord. The four-year loan was potentially expandable to a maximum principal amount of up to \$79,900. The loan bears interest at a floating annual rate of LIBOR plus a spread of 310 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of June 30, 2009). The loan requires interest only payments until the one-year anniversary of the conversion date of the property and then requires monthly principal payments based on a 25-year amortization schedule. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. We were in compliance with all covenants under this loan at June 30, 2009. In January 2009, the total commitments under this loan increased from \$63,940 to \$79,900. We incurred loan fees in connection with the increase of our loan commitments.

*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 (Trust I), 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 plus a spread of 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 Trust I's common securities, representing 3% of the total capitalization of Trust I.

Trust I 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 TPS. The costs of the TPS offering totaled \$1,600, including \$1,500 of underwriting commissions and expenses and \$100 of costs incurred directly by Trust I. Trust I 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 TPS offering and our investment in Trust I, were \$48,400. We used the net proceeds to retire a construction loan.

In June 2007 we completed a private offering of \$28,125 of TPS through Great Wolf Capital Trust III (Trust III), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.90% through June 2012 and then floats at LIBOR plus a spread of 300 basis points thereafter. The

securities mature in June 2017 and are callable at no premium after June 2012. In addition, we invested \$870 in the Trust's common securities, representing 3% of the total capitalization of Trust III.

Trust III used the proceeds of the offering and our investment to purchase from us \$28,995 of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The costs of the TPS offering totaled \$932, including \$870 of underwriting commissions and expenses and \$62 of costs incurred directly by Trust III. Trust III paid these costs utilizing an investment from us. These costs are being amortized over a 10-year period. The proceeds from our debenture sales, net of the costs of the TPS offering and our investment in Trust III, were \$27,193. We used the net proceeds for development costs.

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

Based on the foregoing accounting authority, our consolidated financial statements present the debentures issued to the Trusts as long-term debt. Our investments in the Trusts are accounted as cost investments and are included in other assets on our consolidated balance sheet. For financial reporting purposes, we record interest expense on the corresponding debentures in our condensed 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 91-10, we have recognized as a liability the obligations for the BANs. We have an obligation to fund certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028, which obligation is indirectly related to the payments by the City on the BANs.

*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/>June 30,</b> |                   |
|-----------------------------|-------------------|
| 2010                        | \$ 81,964         |
| 2011                        | 8,894             |
| 2012                        | 214,363           |
| 2013                        | 3,538             |
| 2014                        | 3,818             |
| Thereafter                  | 241,435           |
| <b>Total</b>                | <b>\$ 554,012</b> |

On July 31, 2009, we executed amendments to our Mason and Grapevine mortgage loans that provide for the following:

The maturity date of each loan is extended to July 1, 2011.

Required principal paydowns on the Mason loan are set at \$1,000 each quarter in 2009, and \$2,000 each quarter in 2010 and 2011.

Required principal paydowns on the Grapevine loan are set at \$800 each quarter in 2009, 2010 and 2011.

We have provided the Mason mortgage loan lenders with a \$30,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$30,000 principal reduction of the Mason loan (in

addition to the quarterly required principal payments, as described above) over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of an equity interest in any of our majority-owned resorts or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$30,000 mandatory principal reduction.

Payment quarterly of a variable fee of 0.25% of the principal balance outstanding on the Mason mortgage.

The interest rate on the Grapevine loan is adjusted to a floating rate of LIBOR plus a spread of 400 basis points, with a minimum rate of 7.00% per annum.

The interest rate on the Mason loan is maintained at a floating rate of LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum.

***Short-Term Liquidity Requirements***

Our short-term liquidity requirements generally 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;

debt maturities within the next year;

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 a combination of 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 generally consist primarily of funds necessary to pay for the following items for periods beyond the next 12 months:

scheduled debt maturities;

costs associated with the development of new resorts;

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

capital contributions and loans to unconsolidated joint ventures.

We expect to meet these needs through a combination of:

Existing working capital,

Cash provided by operations,

Proceeds from investing activities, including sales of partial or whole ownership interests in certain of our resorts; and

Proceeds from financing activities, including mortgage financing on properties being developed, additional or replacement borrowings under future credit facilities, contributions from joint venture partners, and the issuance of equity instruments, including common stock, or additional or replacement debt, as market conditions permit.

We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our Mason mortgage loan in the amount of \$75,800 matures on July 1, 2011. We have provided the Mason mortgage loan lenders with a \$30,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$30,000 million principal reduction of the Mason loan over the remaining term of the loan. Should we experience certain liquidity-producing events, including the sale of majority-owned equity interest in any of the our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$30,000 mandatory principal reduction. We expect to satisfy the \$30,000 mandatory principal reduction through one of these liquidity-providing events, cash generated by operations, or a combination of these items.

Our largest long-term expenditures (other than debt maturities) are expected to be for capital expenditures for development of future resorts, routine capital expenditures for our existing resorts, and capital contributions or loans to joint ventures owning resorts under construction or development. Such expenditures were \$46,149 for the three months ended June 30, 2009. We expect to have approximately \$3,000 of such expenditures for the rest of 2009. As discussed above, we expect to meet these requirements through a combination of cash provided by operations, cash on hand, contributions from new joint venture partners, proceeds from investing activities and proceeds from financing activities.

We currently project that the combination of our cash on hand plus cash provided by operations in 2009 will be sufficient to meet the short-term liquidity requirements, as described above. Based on our current projections, however, we do not believe that we will have sufficient excess amounts of cash available in 2009 in order either to begin development of any new resorts or to make capital contributions to new joint ventures that would develop resorts that we would license and manage. Also, due to the current state of the capital markets, which is marked by the general unavailability of debt financing for large commercial construction projects, we do not expect to have significant expenditures for development of new resorts until we have all equity and debt capital amounts fully committed, including our projected ability to fund our required equity contribution to a project. We believe this may result in our not making any significant expenditures in 2009 for development of new resorts or capital contributions to new joint ventures that develop future resorts.

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

We have two unconsolidated joint venture arrangements at June 30, 2009. 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 30.26% ownership interest. At June 30, 2009, the joint venture had aggregate outstanding indebtedness to third parties of \$62,835. This loan is a mortgage loan that is non-recourse to us.

Our joint venture with The Confederated Tribes of the Chehalis Reservation owns the Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This resort opened in March 2008. This joint venture is a limited liability company. We are a member of that limited liability company with a 49% ownership interest. At June 30, 2009, the joint venture had aggregate outstanding indebtedness to third parties of \$102,000. As of June 30, 2009, we have made combined loan and equity contributions, net of loan repayments, of \$30,827 to the joint venture to fund a portion of construction costs of the resort. In January 2009, the other member of the joint venture purchased \$5,991 of our loan at par.

We expect that capital will be required to fund the activities of the resorts owned by these joint ventures and we may in the future fund either or both of the joint ventures' share of the costs not funded by the majority owner of the joint venture, the joint ventures' operations or outside financing. In particular, the resorts owned by the CNL joint venture have been adversely affected by a regional economic downturn and greater-than-expected competitive pressures. In February 2009, we made a \$303 capital contribution to the CNL joint venture. We are working with our partner to develop strategies to improve the performance of the properties and minimize any potential future capital funding by the joint venture's partners. In April 2009, we signed an agreement to sell our 30.26% joint venture interest to CNL. The sale is contingent upon, among other things, receiving consent from the lender in the joint venture's two properties. We expect to close the sale during the third quarter of 2009.

Based on the nature of the activities conducted in these joint ventures, we cannot estimate with any degree of accuracy amounts that we may be required to fund in the long term. We do not currently believe that any additional future funding of these joint ventures will have a material adverse effect on our financial condition, as we currently do not expect to make any significant future capital contributions to these joint ventures.

**Contractual Obligations**

The following table summarizes our contractual obligations as of June 30, 2009:

|                                      | <b>Total</b>      | <b>Payment Terms</b> |                   |                  | <b>More</b>       |
|--------------------------------------|-------------------|----------------------|-------------------|------------------|-------------------|
|                                      |                   | <b>Less Than</b>     | <b>1 Year</b>     | <b>1-3 Years</b> | <b>3-5 Years</b>  |
| Debt obligations (1)                 | \$ 622,623        | \$ 92,753            | \$ 244,316        | \$ 27,580        | \$ 257,974        |
| Operating lease obligations          | 950               | 467                  | 364               | 75               | 44                |
| Construction contracts               | 68                | 68                   |                   |                  |                   |
| Reserve on unrecognized tax benefits | 1,268             |                      |                   | 1,268            |                   |
| <b>Total</b>                         | <b>\$ 624,909</b> | <b>\$ 93,288</b>     | <b>\$ 244,680</b> | <b>\$ 28,923</b> | <b>\$ 258,018</b> |

(1) Amounts include interest (for fixed rate debt) and principal. They also include \$8,510 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,396 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.

If we develop future resorts where we are the majority owner, we expect to incur significant additional debt and construction contract obligations.

**Working Capital**

We had \$23,035 of available cash and cash equivalents and working capital deficit of \$86,482 (current assets less current liabilities) at June 30, 2009, compared to the \$14,231 of available cash and cash equivalents and a working capital deficit of \$117,323 at December 31, 2008. The primary reasons for the working capital deficit are:

The use of cash for capital expenditures and investments in and advances to affiliates and of our properties that were under development,

Less proceeds from issuances of long-term debt, and

The classification of our Mason mortgage loan maturing in November 2009 as a current liability.

**Cash Flows**

**Six months ended June 30, 2009, compared with the six months ended June 30, 2008**

|   | <b>2009</b> | <b>2008</b> | <b>Increase/<br/>(Decrease)</b> |
|---|-------------|-------------|---------------------------------|
| Net cash provided by operating activities | \$ 8,335    | \$ 14,931   | \$ (6,596)                      |
| Net cash used in investing activities     | (38,115)    | (68,726)    | 30,611                          |
| Net cash provided by financing activities | 38,584      | 69,885      | (31,301)                        |

*Operating Activities.* The decrease in net cash provided by operating activities resulted primarily from a decrease in operating income and accounts payable, accrued expenses and other liabilities and an increase in deferred tax benefit during the six months ended June 30, 2009 as compared to June 30, 2008.

*Investing Activities.* The decrease in net cash used in investing activities for the six months ended June 30, 2009, as compared to the six months ended June 30, 2008, resulted primarily from a decrease in contributions to our investments in affiliates offset by an increase in loan repayments received from one of our affiliates. This net decrease is also due to a decrease in capital expenditures related to our properties that are in service and in development.

*Financing Activities.* The decrease in net cash provided by financing activities resulted primarily from receiving fewer loan proceeds during the six months ended June 30, 2009 as compared to the six months ended June 30, 2008.

#### **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, in part, 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 interest rates due to the impact those changes have on our interest income from cash 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.

As of June 30, 2009, we had total indebtedness of approximately \$554,012. This debt consisted of:

\$69,498 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

\$75,800 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 425 basis points, with a minimum rate of 6.50% per annum. The effective rate was 6.50% at June 30, 2009.

\$96,015 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%.

\$63,875 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 350 basis points, with a minimum rate of 6.25% per annum. The effective rate was 6.25% at June 30, 2009.

\$78,709 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 260 basis points. The effective rate was 2.92% at June 30, 2009.

\$77,571 of variable rate debt secured by one of our resorts. This debt bears interest at a floating annual rate of LIBOR plus a spread of 310 basis points, with a minimum rate of 6.50% per annum. The effective rate was 6.50% at June 30, 2009.

\$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.

\$28,995 of subordinated debentures that bear interest at a fixed rate of 7.90% through June 2012 and then at a floating rate of LIBOR plus 300 basis points thereafter. The securities mature in June 2017.

\$8,510 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 \$3,396 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.



\$93 related to a capital lease that was entered into in June 2009. The lease matures in May 2012.

As of June 30, 2009, we estimate the total fair value of the indebtedness described above to be \$162,447 less 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 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 \$787 annually, based on our debt balances outstanding and current interest rates in effect as of June 30, 2009. If LIBOR were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately \$787 annually, based on our debt balances outstanding as of June 30, 2009.

During the six months ended June 30, 2009, there were no other material changes in our market risk exposure. For a complete discussion of our market risk associated with interest rate risk as of June 30, 2009, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008.

#### **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 second quarter of 2009. We have concluded that our disclosure controls and procedures were effective as of June 30, 2009.

##### **Changes In Internal Control Over Financial Reporting**

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.

## **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**

*A regional, national or global outbreak of influenza or other disease, such as the recent international outbreak of influenza A(H1N1), could adversely affect our business and results of operations.*

An outbreak of influenza or other communicable disease can impact places of public accommodation, such as our resorts. On June 11, 2009 the World Health Organization (WHO) raised its pandemic alert level, related to influenza A(H1N1), to Level 6, meaning that the disease has reached pandemic levels. In the primary markets of at least three of our resorts, localized public-health measures have been implemented as a result of outbreaks of influenza A(H1N1), including travel bans, the closings of schools and businesses, and cancellations of events. These measures, especially if they become more geographically widespread or sustained over significant time periods, or if public perception of the safety or desirability of visiting our resorts is adversely impacted by these measures or by media coverage of the outbreak, could materially reduce demand for our rooms and meeting spaces and, correspondingly, reduce our revenue, negatively affecting our business and results of operations.

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, 2008, 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**

We did not make any unregistered sales of equity securities during the six months ended June 30, 2009.

#### **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

We were not in default of our obligations upon any senior securities during the six months ended June 30, 2009.

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

At the annual meeting of stockholders on May 26, 2009, the following individuals were elected to serve as members of our Board of Directors for a one-year term that will expire at our annual meeting in 2010 or when their successors are duly qualified, each individual receiving the indicated number of votes for his or her election, and the indicated number of votes withheld:

|                      | <b>FOR</b> | <b>WITHHELD</b> |
|----------------------|------------|-----------------|
| Joseph V. Vittoria   | 25,146,012 | 2,891,008       |
| Elan J. Blutinger    | 25,224,545 | 2,812,475       |
| Randy L. Churchey    | 25,198,046 | 2,838,974       |
| Edward H. Rensi      | 27,150,358 | 886,662         |
| Kimberly K. Schaefer | 25,357,117 | 2,679,903       |
| Howard A. Silver     | 25,224,015 | 2,813,005       |

Also at the annual meeting of stockholders on May 26, 2009, the stockholders approved the selection of Grant Thornton LLP as our auditors for 2009, with 27,231,277 votes for and 531,116 abstaining.

**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 Quarterly Report on Form 10-Q.

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 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)   |
| 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) |
| 4.4                       | Junior Subordinated Indenture, dated as of June 15, 2007, between Great Wolf Resorts, Inc. and Wells Fargo Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed June 19, 2007)  |

| <b>Exhibit<br/>Number</b> | <b>Description</b>   |
|---------------------------|--|
| 4.5                       | Amended and Restated Trust Agreement, dated as of June 15, 2007, by and among Great Wolf Resorts, Inc., as depositor, Wells Fargo Bank, N.A., as property trustee, Wells Fargo Delaware Trust Company, as Delaware trustee, 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 June 19, 2007) |
| 4.6*                      | Purchase Agreement, dated April 29, 2009, by and among Great Bear Lodge of Wisconsin Dells, LLC, a Delaware limited liability company, Great Lakes Services, LLC, a Delaware limited liability company and CNL Income Partners, LP, a Delaware limited partnership   |
| 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.

**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: August 5, 2009