

Great Wolf Resorts, Inc.  
Form 10-Q  
August 05, 2008

**Table of Contents**

**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, 2008**

**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 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

The number of shares outstanding of the issuer's common stock was 30,939,961 as of August 5, 2008.

**Great Wolf Resorts, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the Quarter Ended June 30, 2008**  
**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1. Financial Statements (unaudited)</u>	
<u>Condensed Consolidated Balance Sheets as of June 30, 2008 and December 31, 2007</u>	3
<u>Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) for the three and six months ended June 30, 2008 and 2007</u>	4
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2008 and 2007</u>	5
<u>Notes to Condensed Consolidated Financial Statements</u>	6
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	19
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	38
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1. Legal Proceedings</u>	40
<u>Item 1A. Risk Factors</u>	40
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	40
<u>Item 3. Defaults Upon Senior Securities</u>	40
<u>Item 4. Submission of Matters to a Vote of Security Holders</u>	40
<u>Item 5. Other Information</u>	40
<u>Item 6. Exhibits</u>	41
<u>Signatures</u>	43
<u>Separation, Consulting and Non-Competition Agreement</u>	
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS**

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

	<b>June 30, 2008 (Unaudited)</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 34,687	\$ 18,597
Accounts receivable, net of allowance for doubtful accounts of \$99 and \$113	3,501	2,373
Accounts receivable unconsolidated related parties	5,083	3,973
Inventory	4,845	4,632
Other current assets	5,919	2,869
Total current assets	54,035	32,444
Property and equipment, net	669,099	617,697
Investments in and advances to unconsolidated related parties	65,979	59,148
Other assets	25,607	20,257
Other intangible assets	23,829	23,829
Goodwill	17,430	17,430
Total assets	\$ 855,979	\$ 770,805

**LIABILITIES AND STOCKHOLDERS EQUITY**

Current liabilities:		
Current portion of long-term debt	\$ 134,378	\$ 78,752
Accounts payable	31,928	18,471
Accrued payroll	4,013	3,644
Accrued expenses	23,918	17,132
Accrued expenses unconsolidated related parties	49	124
Advance deposits	11,506	8,211
Gift certificates payable	3,965	4,670
Total current liabilities	209,757	131,004
Mortgage debt	241,729	225,042
Other long-term debt	92,394	92,508
Other long-term liabilities	2,088	2,232
Deferred tax liability	3,047	7,597
Deferred compensation liability	1,379	2,029
Total liabilities	550,394	460,412

Commitments and contingencies Stockholders' equity:

Stockholders' equity:

Common stock, \$0.01 par value; 250,000,000 shares authorized; 31,036,556 and 30,698,683 shares issued and outstanding, at June 30, 2008, and December 31, 2007, respectively

Additional paid-in-capital

Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding at June 30, 2008 and December 31, 2007

Accumulated deficit

Deferred compensation

Accumulated other comprehensive loss, net of tax

Total stockholders' equity

Total liabilities and stockholders' equity

310	307
399,416	399,759
(93,503)	(87,086)
(200)	(2,200)
(438)	(387)
305,585	310,393
\$ 855,979	\$ 770,805

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

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

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2008	2007	2008	2007
Revenues:				
Rooms	\$ 35,941	\$ 28,033	\$ 74,807	\$ 56,905
Food and beverage	10,235	7,254	20,663	15,044
Other hotel operations	9,110	6,600	18,680	13,584
Management and other fees	663	641	1,429	1,248
Management and other fees related parties	1,501	1,017	2,596	2,188
	57,450	43,545	118,175	88,969
Other revenue from managed properties related parties	5,568	2,802	9,051	5,838
Total revenues	63,018	46,347	127,226	94,807
Operating expenses by department:				
Rooms	5,273	3,834	10,420	7,989
Food and beverage	8,142	6,457	16,135	13,110
Other	7,464	5,878	14,741	11,591
Other operating expenses:				
Selling, general and administrative	16,694	11,458	30,092	24,579
Property operating costs	8,085	6,289	19,914	14,172
Depreciation and amortization	11,741	8,818	22,760	17,462
	57,399	42,734	114,062	88,903
Other expenses from managed properties related parties	5,568	2,802	9,051	5,838
Total operating expenses	62,967	45,536	123,113	94,741
Net operating income	51	811	4,113	66
Investment income related parties	(553)		(1,004)	
Interest income	(409)	(659)	(899)	(1,814)
Interest expense	6,884	3,582	13,791	7,275
Loss before income taxes, minority interests, and equity in losses of unconsolidated related parties	(5,871)	(2,112)	(7,775)	(5,395)
Income tax benefit	(2,232)	(917)	(3,037)	(1,961)
Minority interests, net of tax		(193)		(486)
Equity in losses of unconsolidated related parties, net of tax	451	654	1,679	713

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Net loss	\$	(4,090)	\$	(1,656)	\$	(6,417)	\$	(3,661)
Other comprehensive loss, net of tax:								
Unrealized loss (gain) on interest rate swaps		(356)		(159)		51		(159)
Comprehensive loss	\$	(3,734)	\$	(1,497)	\$	(6,468)	\$	(3,502)
Net loss per share-basic	\$	(0.13)	\$	(0.05)	\$	(0.21)	\$	(0.12)
Net loss per share-diluted	\$	(0.13)	\$	(0.05)	\$	(0.21)	\$	(0.12)
Weighted average common shares outstanding:								
Basic		30,875,615		30,566,218		30,770,388		30,496,174
Diluted		30,875,615		30,566,218		30,770,388		30,496,174

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

**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>2008</b>	<b>2007</b>
Operating activities:		
Net loss	\$ (6,417)	\$ (3,661)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	22,760	17,462
Non-cash employee compensation and professional fees	90	1,406
Equity in losses of unconsolidated related parties	2,756	1,121
Minority interests		(764)
Deferred tax benefit	(4,115)	(2,091)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(6,435)	(4,914)
Accounts payable, accrued expenses and other liabilities	6,292	(484)
Net cash provided by operating activities	14,931	8,075
Investing activities:		
Capital expenditures for property and equipment	(55,272)	(92,594)
Investments in unconsolidated related parties	(9,823)	(19,455)
Investment in development	(1,811)	(9,470)
Purchase of minority interest		(6,900)
Issuance of notes receivable		(3,264)
Decrease (increase) in restricted cash	37	(2)
(Increase) decrease in escrows	(1,857)	277
Net cash used in investing activities	(68,726)	(131,408)
Financing activities:		
Principal payments on long-term debt	(758)	(686)
Proceeds from issuance of long-term debt	72,957	54,619
Payment of loan costs	(2,314)	(899)
Net cash provided by financing activities	69,885	53,034
Net increase (decrease) in cash and cash equivalents	16,090	(70,299)
Cash and cash equivalents, beginning of period	18,597	96,778
Cash and cash equivalents, end of period	\$ 34,687	\$ 26,479



Supplemental Cash Flow Information-

Cash paid for interest, net of capitalized interest	\$ 13,602	\$ 6,761
Cash paid for income taxes	\$ 155	\$ 135
Non-cash items:		
Construction in process accruals	\$ 17,884	\$ 5,203

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

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

**1. ORGANIZATION**

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

**Business Summary**

We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to 400 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge® and Blue Harbor Resort™ brand names. Our resorts are open year-round and provide a consistent, 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, ice cream shop and confectionery, full-service adult spa, kid spa, game arcade, gift shop, miniature golf, interactive game attraction, family tech center 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 operating resorts and resorts under construction. As of June 30, 2008, we operate ten Great Wolf Lodge resorts (our signature Northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

	Ownership Percentage	Opened/ Opening	Number of Guest Suites	Number of Condo Units (1)	Indoor Entertainment Area (2) (Approx. ft <sup>2</sup> )
<b>Existing Resorts:</b>					
Wisconsin Dells, WI (3)	30.32%	1997	308	77	102,000
Sandusky, OH (3)	30.32%	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	402		110,000
Grand Mound, WA (6)	49%	2008	398		74,000
<b>Resorts Under Construction:</b>					
Concord, NC (7)	100%	Spring 2009	402		97,000

**Table of Contents**

- (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 Aveda® spa in the resorts that have such amenities.
- (3) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.68% interest in the joint venture, and we own a 30.32% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture under long-term agreements through October 2020, subject to earlier termination in certain situations.
- (4) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a

license to use the Great Wolf Lodge name for this resort through April 2016. We manage the resort on behalf of Ripley and also provide central reservation services.

- (5) 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. Expected completion of the expansion is early 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 joint venture under long-term agreements through April 2057, subject to earlier termination in certain situations. Chehalis has leased the land needed for the resort to the joint venture.
  
- (7) We are developing a Great Wolf Lodge resort in Concord, North Carolina. The Northwoods-themed,

approximately  
402-suite resort will  
provide a  
comprehensive  
package of first-class  
destination lodging  
amenities and  
activities.

Construction on the  
resort began in  
October 2007 with  
expected completion  
in Spring 2009.

## 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. Accordingly, we have omitted certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the financial statements, accompanying notes and other information included in our Annual Report on Form 10-K for the year ended December 31, 2007.

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.

*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 Related Parties* As of June 30, 2008, we have investments in two joint ventures that we do not consolidate:

§ A 30.32% interest in a joint venture that owns Great Wolf Lodge resorts in Wisconsin Dells, Wisconsin and Sandusky, Ohio.

§ A 49% interest in a joint venture that owns the Great Wolf Lodge resort in Grand Mound, Washington.

**Table of Contents**

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 owners 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 owners based on the difference between each owner's claim on the net assets of the joint venture at the end and beginning of the period, after taking into account contributions and distributions. Each owner's share of the net assets of the joint venture is calculated as the amount that the owner would receive if the joint venture were to liquidate all of its assets at net book value and distribute the resulting cash to creditors and owners in accordance with their respective priorities.

Included in our Investment in and advances to related parties line on our June 30, 2008 consolidated balance sheet is a preferred equity investment of \$8,000 in one of our joint ventures. This preferred equity investment bears interest at 11%. We also have a \$14,915 loan outstanding at June 30, 2008 to one of our joint ventures. This loan bears interest at 11%.

*Minority Interest* We record the non-owned equity interests of our consolidated subsidiaries as minority interests on our consolidated balance sheets. The minority ownership interest of our earnings or loss, net of tax, is classified as Minority interests in our condensed consolidated statements of operations. In June 2007 we purchased the minority interest in the one resort that had a minority interest, and we now own 100% of the resort.

*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.

*Other Comprehensive Income* We record unrealized gain and loss on interest rate swaps in accordance with Statement of Financial Accounting Standards (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 are organized into a single operating division. Within that operating division, we have three reportable segments in 2008 and 2007:

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

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

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

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

The following summarizes significant financial information regarding our segments:

**Table of Contents**

	<b>Resort Ownership/ Operation</b>	<b>Resort Third-Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Three months ended June 30, 2008</b>					
Revenues	\$ 55,286	\$ 7,732	\$	\$	\$ 63,018
EBITDA, excluding certain items	13,102	2,164		(3,474)	\$ 11,792
Depreciation and amortization	(11,185)			(556)	(11,741)
Investment income					553
Interest expense, net of interest income					(6,475)
Loss before income taxes, minority interests, and Equity in losses of unconsolidated related parties					\$ (5,871)
Additions to long-lived assets	35,184			228	\$ 35,412
<b>Six months ended June 30, 2008</b>					
Revenues	\$ 114,150	\$ 13,076	\$	\$	\$ 127,226
EBITDA, excluding certain items	26,936	4,024		(4,087)	\$ 26,873
Depreciation and amortization	(22,029)			(731)	(22,760)
Investment income					1,004
Interest expense, net of interest income					(12,892)
Loss before income taxes, minority interests, and Equity in losses of unconsolidated related parties					\$ (7,775)
Additions to long-lived assets	54,734			538	\$ 55,272
Total assets	709,853	5,326		140,800	\$ 855,979
<b>Three months ended June 30, 2007</b>					
Revenues	\$ 41,887	\$ 4,460	\$	\$	\$ 46,347
EBITDA, excluding certain items	9,085	1,658		(1,114)	\$ 9,629
Depreciation and amortization	(8,679)			(139)	(8,818)

Interest expense, net of interest income			(2,923)
Loss before income taxes, minority interests, and Equity in losses of unconsolidated related parties			\$ (2,112)
Additions to long-lived assets	48,898	104	\$ 49,002



**Table of Contents**

	<b>Resort Ownership/ Operation</b>	<b>Resort Third-Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Six months ended June 30, 2007</b>					
Revenues	\$ 85,533	\$ 9,274	\$	\$	\$ 94,807
EBITDA, excluding certain items	17,507	3,436		(3,415)	\$ 17,528
Depreciation and amortization	(17,168)			(294)	(17,462)
Interest expense, net of interest income					(5,461)
Loss before income taxes, minority interests, and Equity in losses of unconsolidated related parties					\$ (5,395)
Additions to long-lived assets	92,252			342	\$ 92,594
Total assets	597,879	2,437		120,775	\$ 721,091

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 related parties, and intangibles. Goodwill is included in our resort ownership/operation segment.

*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. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 in 2008 did not have an impact on our results of operations or financial position.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The adoption of SFAS 159 in 2008 did not have an impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS 141 (Revised 2007), Business Combinations. SFAS 141(R) will significantly change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be 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. We will be required to adopt SFAS 141(R) on or after December 15, 2008. We do not expect the adoption of SFAS 141(R) to 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 new 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

**Table of Contents**

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. We do not expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures for derivative and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of the adoption of this statement.

**3. 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 \$7, and \$90, net of estimated forfeitures, for the three and six months ended June 30, 2008, respectively.

The total income tax benefit recognized related to share-based compensation was \$3 and \$35 for the three and six months ended June 30, 2008, 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, 2008, total unrecognized compensation cost related to share-based compensation awards was \$3,695, which we expect to recognize over a weighted average period of approximately 3.3 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, 2008, there were 1,483,267 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 \$34 and \$96 for the three and six months ended June 30, 2008, respectively. There were no stock options granted during the three and six months ended June 30, 2008 or 2007. We recorded stock option expense of \$251 and \$709 for the three and six months ended June 30, 2007, respectively. A summary of stock option activity during the six months ended June 30, 2008, is:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>
Number of shares under option:			
Outstanding at beginning of period	987,000	\$ 17.29	

**Table of Contents**

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Granted			
Exercised			
Forfeited	(5,000)	\$ 17.00	
Outstanding at end of period	982,000	\$ 17.29	6.53 years
Exercisable at end of period	972,000	\$ 17.34	6.50 years

There was no intrinsic value of our outstanding or exercisable stock options at June 30, 2008. The intrinsic value of our outstanding stock options was \$16 at June 30, 2007. There was no intrinsic value of our exercisable stock options at June 30, 2007.

*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 84,748 and 215,592 market condition share awards during the six months ended June 30, 2008 and 2007, respectively. We recorded negative share-based compensation expense of (\$140) and (\$32) for the three and six months ended June 30, 2008, respectively. Included in these 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. We recorded share-based compensation expense of \$121 and \$282 for the three and six months ended June 30, 2007, respectively. Of the 2008 market condition shares granted:

84,748 are 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.

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 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. Due to the resignation of a senior officer in May 2008, 55,046 shares were forfeited.

Of the 2007 market condition shares awards granted:

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



**Table of Contents**

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

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

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate 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.

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

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

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

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate 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 a senior officer in May 2008, 34,452 shares were forfeited.

81,293 are based on our common stock's performance in 2007-2009 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. Half of these shares vest on December 31, 2009, and the other half vest on December 31, 2010. The per share fair value of these market condition shares was \$8.24.

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

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

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate 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 a senior officer in May 2008, 34,452 shares were forfeited.

**Table of Contents***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 37,386 and 23,149 performance shares during the six months ended June 30, 2008 and 2007, 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, 2008 and 2007, was \$7.09 and \$13.10, respectively, which represents the fair value of our common stock on the grant date. We recorded share-based compensation expense of (\$41) and \$4 for the three and six months ended June 30, 2008, respectively. Included in these 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. We recorded share-based compensation expense of \$25 and \$51 for the three and six months ended June 30, 2007, respectively. Due to the resignation of a senior officer in May 2008, 18,349 shares were forfeited.

Based on our achievement of certain individual and departmental performance goals, employees earned and were issued 20,843 performance shares in February 2008 related to the 2007 grants and 17,949 performance shares in February 2007 related to 2006 grants. As a result, we recorded a reduction in expense of \$10 and \$103 during the six months ended June 30, 2008 and 2007, respectively, related to the shares not issued.

*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 Emerging Issues Task Force, (EITF) Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we have recorded the fair value of the shares of common stock, at the date the shares were contributed to the trust, as a reduction of our stockholders' equity. Also, as prescribed by EITF Issue No. 97-14, we account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded share-based compensation revenue of (\$260) and (\$704), for the three and six months ended June 30, 2008, respectively. We recorded share-based compensation expense of \$132 and \$37, for the three and six months ended June 30, 2007, respectively.

During the three months ended June 30, 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, 2008 is as follows:

**Table of Contents**

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Aggregate Intrinsic Value</b>
Non-vested shares balance at beginning of period	333,111		
Granted	201,351	\$ 6.27	
Forfeited	(41,474)	\$ 8.49	
Vested	(69,411)	\$ 5.83	
Non-vested shares balance at end of period	423,577	\$ 9.82	\$

We recorded share-based expense of \$179 and \$444 for the three and six months ended June 30, 2008, respectively. Included in these 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. We recorded share-based expense of \$248 and \$430 for the three and six months ended June 30, 2007, respectively.

*Vested Shares*

We have an annual short-term incentive plan for certain employees that provides them the potential to earn cash bonus payments. For 2007, certain of these employees had the option to elect to have some or all of their annual bonus compensation related to performance in 2007 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 otherwise receive. Shares issued in lieu of cash bonus payments are fully vested upon issuance. We recorded expense of \$2,353 in the year ended December 31, 2007 related to our short-term incentive plan. In connection with these elections related to 2007 bonus amounts, we issued 265,908 shares in February 2008. We valued these shares at \$2,055 based on the closing market value of our common stock on the date of the grant.

In 2008, our directors had the option to elect to have some or all of the cash portion of their annual fees paid in the form of shares of our common stock rather than cash. Directors making this election received 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 \$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. There were no similar issuances of stock for director compensation in 2007.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Land and improvements	\$ 51,684	\$ 51,398
Building and improvements	328,076	289,768
Furniture, fixtures and equipment	311,459	334,836
Construction in process	77,731	19,737
	768,950	695,739
Less accumulated depreciation	(99,851)	(78,042)
Property and equipment, net	\$ 669,099	\$ 617,697



Depreciation expense was \$11,216 and \$8,690 for the three months ended June 30, 2008 and 2007, respectively. Depreciation expense was \$21,809 and \$17,144 for the six months ended June 20, 2008 and 2007, respectively.

**5. LONG-TERM DEBT**

Long-term debt consists of the following:

15

---

**Table of Contents**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	\$ 70,887	\$ 71,542
Mason mortgage loan	76,800	76,800
Pocono Mountains mortgage loan	97,000	97,000
Williamsburg mortgage loan	55,000	
Grapevine construction loan	76,217	58,260
Concord construction loan		
Junior subordinated debentures	80,545	80,545
Other Debt:		
City of Sheboygan bonds	8,453	8,465
City of Sheboygan loan	3,599	3,690
	468,501	396,302
Less current portion of long-term debt	(134,378)	(78,752)
Total long-term debt	\$ 334,123	\$ 317,550

*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, 2008.

*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 265 basis points (effective rate of 5.11% as of June 30, 2008). The loan matures in November 2008 and also has two one-year extensions available at our option, assuming the property meets an operating performance threshold. We do not expect the property to meet the operating performance threshold at November 2008. We are negotiating a waiver or modification allowing us to exercise the one-year extension prior to the loan's maturity date in November 2008. 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 maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. This 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, 2008.

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of \$71,000. The agreement expires in November 2008. The agreement effectively fixes the interest rate on \$71,000 of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which are expected to fully perform under the terms of the agreement. Taking into account the effect of this interest rate swap, the total blended rate on this loan was 7.46% as of June 30, 2008.

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

restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2008.

**Table of Contents**

*Williamsburg Mortgage Loan* In February 2008 we closed on a \$55,000 first mortgage loan secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 300 basis points with a minimum rate of 6.50% per annum (effective rate of 6.50% as of June 30, 2008). This loan is interest only and matures in February 2009. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at June 30, 2008. On August 4, 2008, we closed on a new \$65,000 mortgage loan on our Williamsburg, VA resort. The new loan matures in 2011, has a one-year extension option and bears interest at a rate of LIBOR plus 350 basis points, with a minimum rate of 6.25 percent per annum. Upon closing the new loan, we repaid the \$55,000 mortgage loan.

*Grapevine Construction Loan* In July 2006 we closed on a \$79,500 loan to construct the Great Wolf Lodge in Grapevine, Texas. The loan is secured by a first mortgage on the Grapevine, Texas property. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (effective rate of 5.06% as of June 30, 2008). The loan matures in July 2009 and also has two one-year extensions 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 maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and 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, 2008.

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 matures in July 2009 and fixes the maximum annual interest rate on this loan at 10%.

*Concord Construction Loan* On April 30, 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 is 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 345 basis points during the construction period and LIBOR plus a spread of 310 basis points once the resort is open, with a minimum rate (floor) of 6.50% per annum. There were no amounts drawn on this loan as of June 30, 2008.

*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 trust securities. 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.

**Table of Contents**

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. 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 Issue No. 91-10, we have recognized as a liability the obligations for the BANs. The notes bear interest at an annual rate of 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of BANs or other funds appropriated by the City for the payment of interest on the BANs and (b) the proceeds to be delivered from the issuance and sale of securities by the City. We have an obligation to fund payment of these BANs. Our obligation to fund repayment of the notes will be satisfied by certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028.

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

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

<b>Through June 30,</b>	
2009	\$ 134,378
2010	3,859
2011	4,258
2012	77,272
2013	3,538
Thereafter	245,196
Total	\$ 468,501

**6. 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 (income)/loss, net of tax of \$(356) and \$51, respectively related to our interest rate swap. For the three and six months ended June 30, 2007, we recorded comprehensive income, net of tax of \$(159) related to our interest rate swap.

**Table of Contents****7. EARNINGS PER SHARE**

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

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

Options to purchase 984,500 shares of common stock were not included in the computations of diluted earnings per share for the three and six months ended June 30, 2008, because the exercise prices for the options were greater than the average market price of the common shares during that period. There were 142,421 shares of common stock that were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2007, because the market and/or performance criteria related to these shares had not been met at June 30, 2007.

Basic and diluted earnings per common share are as follows:

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net loss attributable to common shares	\$ (4,090)	\$ (1,656)	\$ (6,417)	\$ (3,661)
Weighted average common shares outstanding basic	30,875,615	30,566,218	30,770,388	30,496,174
Weighted average common shares outstanding diluted	30,875,615	30,566,218	30,770,388	30,496,174
Net loss per share basic	\$ (0.13)	\$ (0.05)	\$ (0.21)	\$ (0.12)
Net loss per share diluted	\$ (0.13)	\$ (0.05)	\$ (0.21)	\$ (0.12)

**8. SUBSEQUENT EVENTS**

On August 4, 2008, we closed on a \$65,000 mortgage loan on our Williamsburg, VA resort. The new loan matures in 2011, has a one-year extension option and bears interest at a rate of LIBOR plus 350 basis points, with a minimum rate of 6.25 percent per annum. Upon closing, we repaid an existing \$55,000 bridge loan on the property.

**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.

**Table of Contents**

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

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms (which includes admission to our indoor waterpark), and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, ice cream shop and confectionery, full-service adult spa, kid spa, game arcade, gift shop, miniature golf, interactive game attraction, family tech center 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 operating resorts and resorts under construction. As of June 30, 2008, we operate ten Great Wolf Lodge resorts (our signature Northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

	<b>Ownership Percentage</b>	<b>Opened/ Opening</b>	<b>Number of Guest Suites</b>	<b>Number of Condo Units (1)</b>	<b>Indoor Entertainment Area (2) (Approx. ft<sup>2</sup>)</b>
<b>Existing Resorts:</b>					
Wisconsin Dells, WI (3)	30.32%	1997	308	77	102,000
Sandusky, OH (3)	30.32%	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	402		110,000
		March			
Grand Mound, WA (6)	49%	2008	398		74,000
<b>Resorts Under Construction:</b>					
		Spring			
Concord, NC (7)	100%	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 Aveda® spa in the resorts that have such amenities.
- (3) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.68% interest in the joint venture, and we own a 30.32% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture under long-term agreements through October 2020, subject to earlier termination in certain situations.



- (4) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016. We manage the resort on behalf of Ripley and also provide central reservation services.

**Table of Contents**

- (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. Expected completion of the expansion is early 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 joint venture under long-term agreements through April 2057, subject to earlier termination in certain situations. Chehalis has leased the land needed for the resort to the joint venture.
  
- (7) We are developing a Great Wolf Lodge resort in Concord, North Carolina. The Northwoods-themed, approximately 402-suite resort will provide a comprehensive package of first-class destination lodging amenities and activities.

Construction on the resort began in October 2007 with expected completion in Spring 2009.

*Industry Trends.* We operate in the family entertainment resort segment of the travel and leisure industry. The concept of a family entertainment resort with an indoor waterpark was first introduced to the United States in Wisconsin Dells, Wisconsin, and has evolved there over the past 20+ years. In an effort to boost occupancy and daily rates, as well as capture off-season demand, hotel operators in the Wisconsin Dells market began expanding indoor pools and adding waterslides and other water-based attractions to existing hotels and resorts. The success of these efforts prompted several local operators to build new, larger destination resorts based primarily on the concept.

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

While no standard industry definition for a family entertainment resort featuring an indoor waterpark has developed, we generally consider resorts with at least 200 rooms featuring indoor waterparks larger than 25,000 square feet, as well as a variety of water slides and other water-based attractions, to be competitive with our resorts. A recent Hotel & Leisure Advisors, LLC survey indicates that the number of indoor waterpark destination resorts has grown from 41 available properties as of year-end 2006 to 49 available properties as of January 2008. This same survey indicated 15 new indoor waterpark projects currently projected to open in 2008.

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

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

## **Table of Contents**

selected target markets; focus on development and strategic growth opportunities by seeking to develop additional resorts and target selected licensing and joint venture opportunities; and continue to innovate by leveraging our in-house expertise, in conjunction with the knowledge and experience of our third-party suppliers and designers.

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

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 year, the slowing U.S. economy has led to a decrease in available credit for consumers and a related decrease in consumer discretionary spending. 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 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 three years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts' largest suppliers of customers. We believe the adverse general economic circumstances in the region have negatively impacted overall discretionary consumer spending in that region over the past few years and may continue to do so going forward. We believe this has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts.

We have experienced a much slower-than-expected occupancy ramp-up and lower-than-expected average daily room rates at our Sheboygan, Wisconsin property since its opening in 2004. We believe this operating weakness has been primarily attributable to the fact that the overall development of Sheboygan as a tourist destination continues to lag 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 is ramping up more slowly than we had projected, which we believe is due, in part, to the opening of competitive properties in the region and to negative publicity from operating issues at the resort in early 2007.

Our external growth strategies are based primarily on developing additional indoor waterpark resorts by ourselves (either alone or in conjunction with joint venture partners) or by others (in a licensing situation). 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 subprime loan crisis in 2007 precipitated a general tightening in US lending markets and has decreased the overall availability of construction financing to us and other parties. As a result, we have shifted our domestic development strategy to focus on developing resorts through joint ventures (where we would be the minority owner) and licensing arrangements (where we would have no ownership of the resort).

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 over the past few years. Although we believe we and other investors can continue to obtain construction financing sufficient to execute our development strategies, we believe the more difficult credit market environment is likely to continue at

least through the remainder of 2008.

**Table of Contents**

*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, 2008. 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.

## **Table of Contents**

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

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. While ADR and RevPAR only include rooms revenue, Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the six months ended June 30, 2008, 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 of America, or 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 U.S. 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, 2007. There have been no material changes in any of our accounting policies since December 31, 2007.

## **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. SFAS 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The adoption of SFAS 157 in 2008 did not have an impact on our results of operations or financial position.

**Table of Contents**

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The adoption of SFAS 159 in 2008 did not have an impact on our results of operations or financial position.

In December 2007, the FASB issued SFAS 141 (Revised 2007), Business Combinations. SFAS 141(R) will significantly change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be 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. We will be required to adopt SFAS 141(R) on or after December 15, 2008. We do not expect the adoption of SFAS 141(R) to 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 new 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. We are currently evaluating the impact of the adoption of this statement. We do not expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures for derivative and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of the adoption of this statement.

**Non-GAAP Financial Measures**

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

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



**Table of Contents**

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>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
Net loss	\$ (4,090)	\$ (1,656)	\$ (6,417)	\$ (3,661)
Adjustments:				
Interest expense, net of interest income	6,475	2,923	12,892	5,461
Income tax benefit	(2,410)	(1,180)	(4,115)	(2,091)
Depreciation and amortization	11,741	8,818	22,760	17,462
<b>EBITDA</b>	<b>\$ 11,716</b>	<b>\$ 8,905</b>	<b>\$ 25,120</b>	<b>\$ 17,171</b>

**Results of Operations***General*

**Table of Contents**

Our results of operations for the three and six months ended June 30, 2008 and 2007 are not directly comparable primarily due to the opening of our Great Wolf Lodge resort in Grapevine, Texas in December 2007.

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 and Grapevine operating resorts;

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

our resorts that are under construction which we will consolidate.

*Revenues.* Our revenues consist of:

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

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

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

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

Our other operating expenses include the following items:

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

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

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, 2008, compared with the three months ended June 30, 2007***

The following table shows key operating statistics for our resorts for the three months ended June 30, 2008 and 2007:

**Table of Contents**

	<b>All Properties (a)</b>		<b>Same Store Comparison (b)</b>		
	<b>Three months ended</b>	<b>Three months ended</b>	<b>Three months ended</b>	<b>Increase (Decrease)</b>	
	<b>June 30, 2008</b>	<b>June 30, 2008</b>	<b>June 30, 2007</b>	<b>\$</b>	<b>%</b>
<b>Occupancy</b>	67.1%	64.5%	61.2%	N/A	5.4%
<b>ADR</b>	\$ 234.89	\$228.27	\$ 237.57	\$(9.30)	(3.9)%
<b>RevPAR</b>	\$ 157.53	\$147.27	\$ 145.28	\$ 1.99	1.4%
<b>Total RevPOR</b>	\$ 365.75	\$350.56	\$ 358.72	\$(8.16)	(2.3)%
<b>Total RevPAR</b>	\$ 245.29	\$226.16	\$ 219.37	\$ 6.79	3.1%

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

(b) Same store comparison includes properties that were open for the full periods in 2008 and 2007 (that is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, Poconos, Niagara Falls and Mason resorts).

Decreases in our same store ADR and Total RevPOR are primarily a result of an earlier Easter holiday in the three months ended June 30, 2008 as compared to the three months ended June 30, 2007, compressing more of the traditional spring break holiday for families into the first quarter in 2008, as compared to the second quarter in 2007.

In December 2007 we opened our resort in Grapevine, Texas. As a result, total revenue, rooms revenue and other revenue for the three month periods ended June 30, 2008 and 2007 are not directly comparable.

Presented below are selected amounts from the statements of operations for the three months ended June 30, 2008 and 2007:

	<b>Three months ended June 30,</b>		<b>Increase (Decrease)</b>
	<b>2008</b>	<b>2007</b>	
Revenues	\$63,018	\$46,347	\$16,671
Operating expenses:			
Departmental operating expenses	20,879	16,169	4,710
Selling, general and administrative	16,694	11,458	5,236
Property operating costs	8,085	6,289	1,796
Depreciation and amortization	11,741	8,818	2,923
Net operating income	51	811	(760)
Interest expense, net of interest income	6,475	2,923	3,552
Income tax benefit	(2,232)	(917)	(1,315)
Net loss	(4,090)	(1,656)	(2,434)

*Revenues.* Total revenues increased primarily due to the opening of our Grapevine resort in December 2007, increased marketing efforts at our Mason resort, and management and other fees and other revenues from managed properties related to our joint venture with Chehalis at our resort in Grand Mound, Washington.

*Operating expenses.* Total operating expenses increased primarily due to the opening of our Grapevine resort in December 2007.

Departmental expenses increased by \$4,710 for the three months ended June 30, 2008, as compared to the three months ended June 30, 2007, due primarily to the opening of our Grapevine resort.

Total selling, general and administrative expenses increased by \$5,236 due primarily to the opening of our Grapevine resort, increased marketing efforts at our Mason resort and an increase in corporate selling, general and

**Table of Contents**

administrative expenses. The corporate selling, general and administrative expense increase was due primarily to separation costs of \$1,258 for former officers in the three months ended June 30, 2008, as compared to the three months ended June 30, 2007.

Total property operating costs (exclusive of opening costs) increased \$2,525 for the three months ended June 30, 2008, as compared to the three months ended June 30, 2007, due primarily to the opening of our Grapevine resort. Opening costs related to our resorts were \$368 for the three months ended June 30, 2008, as compared to \$1,097 for the three months ended June 30, 2007.

Total depreciation and amortization increased mainly due to the opening of our Grapevine resort and the conference center expansion at our Williamsburg resort in June 2007.

*Net operating income.* During the three months ended June 30, 2008, we had net operating income of \$51 as compared to a net operating income of \$811 for the three months ended June 30, 2007.

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

An increase in net interest expense of \$3,552 mainly due to interest expense on mortgage debt related to our Williamsburg and Grapevine resorts, hedge fees related to a terminated debt transaction related to our Williamsburg resort, and interest expense on our junior subordinated debentures issued in June 2007; and

A decrease in operating income from \$811 for the three months ended June 30, 2007, to \$51 for the three months ended June 30, 2008.

This increase was partially offset by an increase of \$1,315 in income tax benefit recorded in the three months ended June 30, 2008, as compared to the three months ended June 30, 2007.

***Six months ended June 30, 2008, compared with the six months ended June 30, 2007***

The following table shows key operating statistics for our resorts for the six months ended June 30, 2008 and 2007:

	All Properties (a)		Same Store Comparison (b)		
	Six months ended	Six months ended	Six months ended	Increase (Decrease)	
	June 30, 2008	June 30, 2008	June 30, 2007	\$	%
<b>Occupancy</b>	65.5%	64.2%	62.7%	N/A	2.4%
<b>ADR</b>	\$ 251.04	\$246.98	\$ 242.88	\$ 4.10	1.7%
<b>RevPAR</b>	\$ 164.43	\$158.66	\$ 152.18	\$ 6.48	4.3%
<b>Total RevPOR</b>	\$ 387.77	\$376.68	\$ 368.71	\$ 7.97	2.2%
<b>Total RevPAR</b>	\$ 253.99	\$241.98	\$ 231.02	\$10.96	4.7%

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

(b) Same store comparison includes properties that

were open for the full periods in 2008 and 2007 (that is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, Poconos, Niagara Falls and Mason resorts).

In December 2007 we opened our resort in Grapevine, Texas. As a result, total revenue, rooms revenue and other revenue for the six month periods ended June 30, 2008 and 2007 are not directly comparable.

**Table of Contents**

Presented below are selected amounts from the statements of operations for the six months ended June 30, 2008 and 2007:

	<b>Six months ended June 30,</b>		<b>Increase (Decrease)</b>
	<b>2008</b>	<b>2007</b>	
Revenues	\$127,226	\$94,807	\$32,419
Operating expenses:			
Departmental operating expenses	41,296	32,690	8,606
Selling, general and administrative	30,092	24,579	5,513
Property operating costs	19,914	14,172	5,742
Depreciation and amortization	22,760	17,462	5,298
Net operating income	4,113	66	4,047
Net interest expense	12,892	5,461	7,431
Income tax benefit	(3,037)	(1,961)	(1,076)
Net loss	(6,417)	(3,661)	(2,756)

*Revenues.* Total revenues increased primarily due to the opening of our Grapevine resort in December 2007, the expansion at our Williamsburg resort in the first half of 2007, increased marketing efforts at our Mason resort, and management and other fees and other revenues from managed properties related to our joint venture with Chehalis at our resort in Grand Mound, Washington.

*Operating expenses.* Total operating expenses increased primarily due to the opening of our Grapevine resort in December 2007 and our expansion at our Williamsburg resort in the first half of 2007.

Departmental expenses increased by \$8,606 for the six months ended June 30, 2008, as compared to the six months ended June 30, 2007, mainly due to the opening of our Grapevine resort and the expansion of our Williamsburg resort.

Total selling, general and administrative expenses increased by \$5,513 for the six months ended June 30, 2008, as compared to the six months ended June 30, 2007. Selling, general and administrative expenses increased by \$4,386 due to the opening of our Grapevine resort and the expansion of our Williamsburg resort. This increase was also due to an increase in corporate selling, general and administrative expenses of \$2,129 due primarily to separation costs of \$1,258 for former officers in the six months ended June 30, 2008, as compared to the six months ended June 30, 2007.

Total property operating costs (exclusive of opening costs) increased \$5,217 for the six months ended June 30, 2008, as compared to June 30, 2007, mainly due to the opening of our Grapevine resort, as well as increased repairs and maintenance expense, and increased utilities expense related to the expansion of our Williamsburg resort and amenity additions to several of our other resorts. Opening costs related to our resorts were \$3,948 for the six months ended June 30, 2008, as compared to \$3,423 for the six months ended June 30, 2007.

Total depreciation and amortization increased mainly due to the opening of our Grapevine resort and the expansion at our Williamsburg resort. The total increase in depreciation and amortization at these two resorts was \$4,248 during the six months ended June 30, 2008, as compared to the six months ended June 30, 2007.

*Net operating income.* During the six months ended June 30, 2008, we had net operating income of \$4,113 as compared to a net operating income of \$66 for the six months ended June 30, 2007.

*Net loss.* Net loss increased mainly due to an increase in net interest expense of \$7,431. The increase in net interest expense is mainly due to interest expense on mortgage debt related to our Williamsburg and Grapevine resorts,

**Table of Contents**

hedge fees related to a terminated debt transaction related to our Williamsburg resort, and interest expense on our junior subordinated debentures issued in June 2007.

This increase was partially offset by:

An increase in operating income from \$66 for the six months ended June 30, 2007, to \$4,113 for the six months ended June 30, 2007.

§ An increase of \$1,076 in income tax benefit recorded in the six months ended June 30, 2008, as compared to the six months ended June 30, 2007.

**Segments**

We are organized into a single operating division. Within that operating division, we have three reportable segments in 2008 and 2007:

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

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

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

We evaluate the performance of each segment based on earnings before interest, income taxes, and depreciation and amortization (EBITDA), excluding minority interests and equity in earnings of unconsolidated related parties. See our Segments section in our Summary of Significant Accounting Policies for a reconciliation of these measures to their most directly comparable GAAP measure.

	Three months ended			Six months ended		
	2008	2007	Increase (Decrease)	2008	2007	Increase (Decrease)
<b>Resort Ownership/Operation</b>						
Revenues	\$55,286	\$41,887	\$13,399	\$114,150	\$85,533	\$28,617
EBITDA, excluding certain items	13,102	9,085	4,017	26,936	17,507	9,429
<b>Resort Third-Party Mgmt</b>						
Revenues	7,732	4,460	3,272	13,076	9,274	3,802
EBITDA, excluding certain items	2,164	1,658	506	4,024	3,436	588
<b>Condominium Sales</b>						
Revenues						
EBITDA, excluding certain items						
<b>Other</b>						
Revenues						
EBITDA, excluding certain items	(3,474)	(1,114)	(2,360)	(4,087)	(3,415)	(672)

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 \$468,501 and \$396,302 as of June 30, 2008, and December 31, 2007, respectively, summarized as follows:

31

---

**Table of Contents**

	<b>June 30, 2008</b>	<b>December 31, 2007</b>
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	\$ 70,887	\$ 71,542
Mason mortgage loan	76,800	76,800
Pocono Mountains mortgage loan	97,000	97,000
Williamsburg mortgage loan	55,000	
Grapevine construction loan	76,217	58,260
Concord construction loan		
Junior subordinated debentures	80,545	80,545
Other Debt:		
City of Sheboygan bonds	8,453	8,465
City of Sheboygan loan	3,599	3,690
	468,501	396,302
Less current portion of long-term debt	(134,378)	(78,752)
Total long-term debt	\$ 334,123	\$ 317,550

*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, 2008.

*Mason Construction 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 265 basis points (effective rate of 5.11% as of June 30, 2008). The loan matures in November 2008 and also has two one-year extensions available at our option, assuming the property meets an operating performance threshold. We do not expect the property to meet the operating performance threshold at November 2008. We are negotiating a waiver or modification allowing us to exercise the one-year extension prior to the loan's maturity date in November 2008. 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 maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. This 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, 2008.

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of \$71,000. The agreement expires in November 2008. The agreement effectively fixes the interest rate on \$71,000 of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which are expected to fully perform under the terms of the agreement. Taking into account the effect of this interest rate swap, the total blended rate on this loan was 7.46% as of June 30, 2008.

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

restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2008.

**Table of Contents**

*Williamsburg Mortgage Loan* In February 2008 we closed on a \$55,000 first mortgage loan secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 300 basis points with a minimum rate of 6.50% per annum (effective rate of 6.50% as of June 30, 2008). This loan is interest only and matures in February 2009. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at June 30, 2008. On August 4, 2008, we closed on a new \$65,000 mortgage loan on our Williamsburg, VA resort. The new loan matures in 2011, has a one-year extension option and bears interest at a rate of LIBOR plus 350 basis points, with a minimum rate of 6.25 percent per annum. Upon closing the new loan, we repaid the \$55,000 mortgage loan.

*Grapevine Construction Loan* In July 2006 we closed on a \$79,500 loan to construct the Great Wolf Lodge in Grapevine, Texas. The loan is secured by a first mortgage on the Grapevine, Texas property. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (effective rate of 5.06% as of June 30, 2008). The loan matures in July 2009 and also has two one-year extensions 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 maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and 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, 2008.

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 matures in July 2009 and fixes the maximum annual interest rate on this loan at 10%.

*Concord Construction Loan* On April 30, 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 is 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 345 basis points during the construction period and LIBOR plus a spread of 310 basis points once the resort is open, with a minimum rate (floor) of 6.50% per annum. There were no amounts drawn on this loan as of June 30, 2008.

*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 trust securities. 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.

**Table of Contents**

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. 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 Issue No. 91-10, we have recognized as a liability the obligations for the BANs. The notes bear interest at an annual rate of 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of BANs or other funds appropriated by the City for the payment of interest on the BANs and (b) the proceeds to be delivered from the issuance and sale of securities by the City. We have an obligation to fund payment of these BANs. Our obligation to fund repayment of the notes will be satisfied by certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028.

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

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

<b>Through June 30,</b>	
2009	\$ 134,378
2010	3,859
2011	4,258
2012	77,272
2013	3,538
Thereafter	245,196
<b>Total</b>	<b>\$ 468,501</b>

**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;

**Table of Contents**

property taxes and insurance expenses;

interest expense and scheduled principal payments on outstanding indebtedness;

general and administrative expenses; and

income taxes.

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

***Long-Term Liquidity Requirements***

Our long-term liquidity requirements 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 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 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 \$76,800 matures in November 2008. The loan has two, one-year extensions available at our option, assuming the property meets an operating performance threshold. We do not expect the property to meet the operating performance threshold at November 2008. Accordingly, we have begun discussions with the lender on obtaining a waiver or modification of this performance threshold, in order to exercise the one-year extension at November 2008. We do not currently have sufficient liquidity to repay this loan at its maturity date and we do not believe we will be able to pursue refinancing the Mason loan with a new lender until sometime in 2009. We expect to obtain a waiver or modification allowing us to exercise the one-year extension prior to the loan's maturity date in November 2008. In the event we are unable to obtain such a waiver or modification, however, the maturity of this debt could have a material impact on our operating results and financial condition.

Also, in February 2008 we closed on a \$55,000 mortgage loan secured by our Williamsburg resort. That loan has a one-year term. On August 4, 2008, we closed on a \$65,000 mortgage loan on our Williamsburg, VA resort and repaid this loan.

**Table of Contents**

Our largest long-term expenditures (other than debt maturities) are expected to be for capital expenditures for development of future resorts and capital contributions or loans to joint ventures owning resorts under construction or development. Such expenditures were \$55,272 for the six months ended June 30, 2008. We expect to have approximately \$85,100 of such expenditures in the remainder of 2008 and \$43,700 in 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.

**Off Balance Sheet Arrangements**

We have two unconsolidated joint venture arrangements at June 30, 2008. 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 30.32% ownership interest. At June 30, 2008, the joint venture had aggregate outstanding indebtedness to third parties of \$63,000. This loan is a mortgage loan that is non-recourse to us.

We entered into our joint venture with The Confederated Tribes of the Chehalis Reservation to develop a Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This 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, 2008, the joint venture had aggregate outstanding indebtedness to third parties of \$97,887. We have provided a 49% guarantee on mortgage debt obtained by the Grand Mound joint venture. As of June 30, 2008, we have made combined loan and equity contributions of \$42,093 to the joint venture to fund a portion of construction costs of the resort.

As capital may be required to fund the activities of the resorts owned by these joint ventures, we may in the future fund either or both of the joint ventures' shares 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. 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.

Based on the nature of the activities conducted in these joint ventures, management cannot estimate with any degree of accuracy amounts that we may be required to fund in the long term. Management does not currently believe that any additional future funding of these joint ventures will have an adverse effect on our financial condition, however, as currently we 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, 2008:

	Total	Payment Terms			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
Debt obligations (1)	\$ 468,501	\$ 134,378	\$ 8,117	\$ 80,810	\$ 245,196
Operating lease obligations	1,372	561	479	274	58
Construction contracts	68,804	68,804			
Related party guarantee (2)	952	457	495		
Reserve on unrecognized tax benefits	1,268			1,268	
Total	\$ 540,897	\$ 204,200	\$ 9,091	\$ 82,352	\$ 245,254

- (1) Includes \$8,453 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,599 of fixed rate debt recognized as a liability related to a loan from the City of Sheboygan.



**Table of Contents**

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.

- (2) We have provided a partial guarantee on mortgage debt obtained by one of our joint ventures.

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

**Working Capital**

We had \$34,687 of available cash and cash equivalents and working capital deficit of \$155,722 (current assets less current liabilities) at June 30, 2008, compared to the \$18,597 of available cash and cash equivalents and a working capital deficit of \$98,560 at December 31, 2007. The primary reason for the decline in our working capital balance from December 31, 2007 to June 30, 2008 was the use of cash for capital expenditures and investments in and advances to related parties, for our properties under development, and the incurrence of \$55,000 of mortgage debt classified as a current liability.

**Cash Flows****Six months ended June 30, 2008, compared with the six months ended June 30, 2007**

	<b>2008</b>	<b>2007</b>	<b>Increase</b>
Net cash provided by operating activities	\$ 14,931	\$ 8,075	\$ 6,856
Net cash used in investing activities	(68,726)	(131,408)	62,682
Net cash provided by financing activities	69,885	53,034	16,851

*Operating Activities.* The increase in net cash provided by operating activities resulted primarily from an increase in accounts payable, accrued expenses and other liabilities and depreciation and amortization during the six months ended June 30, 2008 as compared to June 30, 2007.

*Investing Activities.* The increase in net cash used in investing activities for the six months ended June 30, 2008, as compared to the six months ended June 30, 2007, resulted primarily from decreased capital expenditures for our properties that are in service and our development properties as well as a decrease in our investments in affiliates.

*Financing Activities.* The increase in net cash provided by financing activities resulted primarily from the proceeds from our Williamsburg loan during 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 short-term investments, and our interest expense from variable-rate debt instruments. We may use derivative financial instruments to manage or hedge interest rate risks related to our borrowings. We do not intend to use derivatives for trading or speculative purposes.

**Table of Contents**

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of \$71,000. The agreement expires in December 2008. The agreement effectively fixes the interest rate on \$71,000 of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which are expected to fully perform under the terms of the agreement.

As of June 30, 2008, we had total indebtedness of approximately \$468,501. This debt consisted of:  
 \$70,887 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

\$76,800 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 265 basis points. \$71,000 of this debt is effectively fixed at a rate of 7.65% due to the interest rate swap described above. Taking into account the effect of this interest rate swap, the total blended rate on this loan was 7.46% as of June 30, 2008.

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

\$55,000 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 300 basis points, with a minimum rate of 6.50% per annum. The total rate was 6.50% at June 30, 2008.

\$76,217 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 total rate was 5.06% at June 30, 2008.

\$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.

\$8,453 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 \$3,599 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.

As of June 30, 2008, we estimate the total fair value of the indebtedness described above to be \$73,320 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 \$1,314 annually, based on our debt balances outstanding as of June 30, 2008. If LIBOR were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately \$1,314 annually, based on our debt balances outstanding as of June 30, 2008.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

**Table of Contents**

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 2008. We have concluded that our disclosure controls and procedures were effective as of June 30, 2008.

**Changes In Internal Control**

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

**Table of Contents****PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2007, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

At the annual meeting of stockholders on May 28, 2008, 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 2009 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	23,020,495	185,582
Elan J. Blutinger	22,486,978	719,099
Randy L. Churchey	22,873,306	332,771
Eric D. Hovde	22,904,200	301,877
Michael M. Knetter	22,496,814	709,263
Beth B. May	22,913,075	293,002
Richard T. Murray	22,405,814	800,263
Edward H. Rensi	22,974,783	231,294
Howard A. Silver	22,358,923	847,154

**ITEM 5. OTHER INFORMATION**

None.

**Table of Contents****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 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)
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)

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
10.1*	Separation, Consulting and Noncompetition Agreement dated June 16, 2008, by and between Great Wolf Resorts, Inc., and Hernan Martinez.
10.2	Employment Agreement, dated as of May 23, 2008, between the Company and Mr. Randy Churchey (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 27, 2008).
10.3	Agreement, dated as of May 9, 2008, among the Company and certain investors of the Company parties thereto (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed May 14, 2008).
10.4	Separation, Consulting and Non-competition Agreement, entered into on May 9, 2008, between the Company and John Emery (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed May 14, 2008).
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
99.1	Loan Agreement dated April 30, 2008, among Great Wolf Lodge of the Carolinas, LLC, as borrower, Marshall Financial Group, as Administrative Agent, and the several banks and other financial institutions from time to time party thereto (incorporated herein by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed May 6, 2008).

\* Filed herewith.

**Table of Contents**

**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, 2008