

Great Wolf Resorts, Inc.  
Form 10-Q  
May 12, 2005

**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 March 31, 2005**

**OR**

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

**Commission File Number 000-51064**

**GREAT WOLF RESORTS, INC.**  
**(Exact name of registrant as specified in its charter)**

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

**51-0510250**  
*(I.R.S. Employer  
Identification No.)*

**122 West Washington Avenue**  
**Madison, Wisconsin 53703**  
*(Address of principal executive offices)*

**53703**  
*(Zip Code)*

**Registrant's telephone number, including area code**  
**608 661-4700**

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

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

The number of shares outstanding of the issuer's common equity was 30,262,308 as of May 12, 2005.

**Table of Contents**

**Great Wolf Resorts, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the Quarter Ended March 31, 2005**

**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u> <u>Financial Statements (unaudited)</u>	3
<u>Condensed Consolidated Balance Sheets for Great Wolf Resorts, Inc. and subsidiaries as of           March 31, 2005 and December 31, 2004</u>	3
<u>Condensed Consolidated and Combined Statements of Operations for Great Wolf Resorts, Inc.           and Subsidiaries for the three months ended March 31, 2005 and for Great Lakes Predecessor for           the three months ended March 31, 2004</u>	4
<u>Condensed Consolidated and Combined Statements of Cash Flows for Great Wolf Resorts, Inc.           and Subsidiaries for the three months ended March 31, 2005 and for Great Lakes Predecessor for           the three months ended March 31, 2004</u>	5
<u>Notes to Condensed Consolidated and Combined Financial Statements</u>	6
<u>Item 2.</u> <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	13
<u>Item 3.</u> <u>Quantitative and Qualitative Disclosures About Market Risk</u>	26
<u>Item 4.</u> <u>Controls and Procedures</u>	26
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1.</u> <u>Legal Proceedings</u>	28
<u>Item 2.</u> <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	28
<u>Item 3.</u> <u>Defaults Upon Senior Securities</u>	28
<u>Item 4.</u> <u>Submission of Matters to a Vote of Security Holders</u>	28
<u>Item 5.</u> <u>Other Information</u>	28
<u>Item 6.</u> <u>Exhibits</u>	28
<u>Revolving Credit Agreement</u>	
<u>Certification of Chief Executive Officer</u>	
<u>Certification of Chief Financial Officer</u>	
<u>Section 1360 Certification of Chief Executive Officer</u>	
<u>Section 1350 Certification of Chief Financial Officer</u>	



**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS**

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
	<b>(Unaudited)</b>	
	<b>(Dollars in thousands, except per share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 67,344	\$ 81,417
Accounts receivable, net of allowance for doubtful accounts of \$267 and \$183	1,380	881
Inventory	2,295	1,848
Other current assets	6,601	3,921
Total current assets	77,620	88,067
Property and equipment, net	333,345	275,758
Equity escrow	6	1,564
Other assets	10,591	8,298
Goodwill	200,387	218,727
Total assets	\$ 621,949	\$ 592,414
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,834	\$ 27,794
Accounts payable	23,265	31,506
Accrued expenses	10,459	10,466
Advance deposits	5,227	3,129
Other current liabilities	1,776	2,138
Total current liabilities	42,561	75,033
Long-term debt	155,620	102,813
Other long-term liabilities	11,981	12,058
Deferred tax liability	22,531	11,298
Deferred compensation liability	3,260	2,891
Total liabilities	235,953	204,093
Commitments and contingencies		
Stockholders' Equity:	303	303

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Common stock, \$0.01 par value, 250,000,000 shares authorized, 30,262,308 shares issued and outstanding		
Additional paid in capital	394,060	394,060
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding		
Accumulated deficit	(6,167)	(3,842)
Shares of common stock held in deferred compensation plan	(2,200)	(2,200)
Total stockholders' equity	385,996	388,321
Total liabilities and stockholders' equity	\$ 621,949	\$ 592,414

See accompanying notes to condensed consolidated and combined financial statements.

Table of Contents

**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES AND  
GREAT LAKES PREDECESSOR**

**CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS**

	<b>Great Wolf Resorts, Inc.                  Predecessor Three months ended March 31, 2005                  2004 (Unaudited, dollars in thousands, except per share data)</b>	
Revenues:		
Rooms	\$ 18,076	\$ 7,243
Food and beverage	4,758	1,787
Other resort operations	4,162	1,617
Management fees related parties		405
Development and other fees related parties		360
	26,996	11,412
Other revenue from managed properties		3,340
Total revenues	26,996	14,752
Operating expenses by department:		
Rooms	2,638	1,049
Food and beverage	3,763	1,461
Other	3,268	1,277
Other operating expenses:		
Selling, general and administrative	7,238	3,206
Property operating costs	6,057	1,787
Depreciation and amortization	7,127	2,716
	30,091	11,496
Other expenses from managed properties		3,340
Total operating expenses	30,091	14,836
Net operating loss	(3,095)	(84)
Interest income	(292)	(78)
Interest expense	1,056	1,283
Gain on sale of investments		(1,072)
Interest on mandatorily redeemable shares		1,692
Minority interests		29

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Loss before income taxes	(3,859)	(1,938)
Income tax benefit	(1,534)	
Loss from continuing operations	(2,325)	(1,938)
Income from discontinued operations		20
Net loss	\$ (2,325)	\$ (1,918)
Basic loss per share	\$ (0.08)	
Diluted loss per share	\$ (0.08)	
Weighted average common shares outstanding:		
Basic	30,132,896	
Diluted	30,132,896	

See accompanying notes to condensed consolidated and combined financial statements.



Table of Contents

**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES AND  
GREAT LAKES PREDECESSOR**

**CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS**

	<b>Great Wolf Resorts, Inc. Three months ended March 31, 2005 (Unaudited, dollars in thousands)</b>	<b>Predecessor 2004</b>
Operating activities:		
Net loss	\$ (2,325)	\$ (1,918)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	7,127	3,043
Non-cash employee compensation expense	338	
Gain on sale of investments		(1,072)
Minority interests		29
Deferred tax benefit	(1,534)	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(5,738)	(392)
Accounts payable, accrued expenses and other liabilities	(6,512)	1,353
Net cash (used in) provided by operating activities	(8,644)	1,043
Investing activities:		
Capital expenditures for property and equipment	(32,183)	(21,281)
Proceeds from sale of assets		7,925
Decrease (increase) in equity escrow	1,558	(14,593)
Net cash used in investing activities	(30,625)	(27,949)
Financing activities:		
Principal payments on long-term debt	(48,715)	(6,608)
Proceeds from issuance of long-term debt	75,483	16,049
Payment of loan costs	(1,572)	(2,283)
Member contributions		25,191
Member distributions		(4,415)
Changes in mandatorily redeemable ownership interests		1,692
Net distributions to minority investors		635
Net cash provided by financing activities	25,196	30,261

Net increase (decrease) in cash and cash equivalents	(14,073)	3,355
Cash and cash equivalents, beginning of period	81,417	3,553
Cash and cash equivalents, end of period	\$ 67,344	\$ 6,908
Supplemental Cash Flow Information- Cash paid for interest, net of capitalized interest	\$ 552	\$ 1,294

See accompanying notes to condensed consolidated and combined financial statements.

**Table of Contents**

**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES AND  
GREAT LAKES PREDECESSOR**

**NOTES TO THE CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS**

**(Dollars in thousands, except per share amounts)**

**1. ORGANIZATION**

**Background**

The terms Great Wolf Resorts, us, we and our are used in this report to refer to Great Wolf Resorts, Inc. Through our controlling interest in GWR Operating Partnership, L.L.L.P., or the Operating Partnership, and the subsidiaries of the Operating Partnership, we develop, own and operate family entertainment resorts.

We were formed to succeed to certain businesses of the Great Lakes Predecessor (the Predecessor), which was not a legal entity but rather a combination of numerous entities. The Predecessor consisted of the following, all of which were under common management:

The Great Lakes Companies, Inc. (GLC), and its consolidated subsidiaries;

Great Wolf Lodge of Traverse City, LLC;

Great Wolf Lodge of Kansas City, LLC;

Blue Harbor Resort Sheboygan, LLC;

Great Wolf Lodge of Williamsburg, LLC; and

Great Wolf Lodge of the Poconos, LLC.

The Predecessor financial statements did not include entities that owned Great Wolf Lodges in Wisconsin Dells, Wisconsin and Sandusky, Ohio. These entities, although they were managed by GLC, were controlled by affiliates of AIG SunAmerica, Inc.

The Predecessor had developed and operated hotels and multifamily housing projects since 1995. In 1999, the Predecessor began its resort operations by purchasing the Great Wolf Lodge in Wisconsin Dells, Wisconsin and developing the Great Wolf Lodge in Sandusky, Ohio, which opened in 2001. In 2003, the Predecessor opened two additional Great Wolf Lodge resorts, one in Traverse City, Michigan and the other in Kansas City, Kansas. In June 2004, the Predecessor opened the Blue Harbor Resort in Sheboygan, Wisconsin. Additionally in 2004, the Predecessor had two additional Great Wolf Lodge resorts under construction, one in Williamsburg, Virginia and the other in the Pocono Mountains region of Pennsylvania, and had licensed a resort owned by a third party that was under construction in Niagara Falls, Ontario (Canada). The Great Wolf Lodge in Williamsburg, Virginia, opened in March 2005.

We were incorporated in May 2004 as a Delaware corporation in anticipation of the initial public offering of our common stock (the IPO). The IPO closed on December 20, 2004, concurrently with the completion of various formation transactions (the Formation Transactions).

Pursuant to the Formation Transactions:

The Predecessor contributed its hotel management and multifamily housing management and development assets, which were unrelated to the resort business, to two subsidiaries of the Predecessor and then distributed the interests in those subsidiaries to the former shareholders of GLC.

6

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**Table of Contents**

We effected, through our Operating Partnership, the acquisition of GLC and each resort-owning entity. Pursuant to these acquisitions, investors of GLC and the resort-owning entities received cash, unregistered shares of our common stock or a combination of cash and unregistered shares of our common stock. We issued 13,901,947 shares of our common stock and paid approximately \$97,600 in cash in connection with these acquisitions.

We issued an aggregate of 130,949 shares of unregistered common stock to holders of tenant in common interests in two of our resorts.

These transactions consolidated the ownership of our resort properties and property interests to Great Wolf Resorts. During the period from our formation until we commenced operations upon closing of the IPO on December 20, 2004, we did not have any material corporate activity.

The IPO consisted of the sale of 16,100,000 shares of common stock at a price per share of \$17.00, generating gross proceeds of \$273,700. The net proceeds to us were approximately \$248,700 after deducting an aggregate of \$19,200 in underwriting discounts and commissions paid to the underwriters and \$5,800 in other expenses directly related to the issuance of common stock (such as professional fees and printing fees) incurred in connection with the IPO.

As of March 31, 2005, we own and operate five Great Wolf Lodge resorts, our signature northwoods-themed resorts, and one Blue Harbor Resort, a nautical-themed property. In addition, we own one Great Wolf Lodge resort in the Pocono Mountains, Pennsylvania, that we are developing and that is under construction and scheduled to open for business in the fall of 2005. We are also the licensor and manager of an additional Great Wolf Lodge resort in Niagara Falls, Ontario that is owned and under development by an affiliate of Ripley Entertainment Inc., or Ripley s.

**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 the United States of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. 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 from our resorts. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms, which includes admission to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, an ice cream shop and confectionery, full-service spa, game arcade, gift shop and meeting space. We also expect to generate revenues from licensing arrangements, management fees and construction fees with respect to properties owned by third parties, such as the licensing agreement we have entered into and management arrangement we have agreed to enter into with Ripley s in connection with the Niagara Falls, Ontario resort.

The following table presents an overview of our portfolio of operating resorts and resorts under construction (including the Niagara resort that will be owned by a third party licensee):

<b>Location</b>	<b>Opened/Target Opening</b>	<b>Rooms</b>	<b>Indoor Entertainment Area(1)</b>
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<b>Existing Resorts:</b>			<b>(Approx. ft<sup>(2)</sup>)</b>
Wisconsin Dells, WI	May 1997(2)	309(3)	64,000
Sandusky, OH(4)	March 2001	271	41,000
Traverse City, MI	March 2003	281	51,000
Kansas City, KS	May 2003	281	49,000

**Table of Contents**

<b>Location</b>	<b>Opened/Target Opening</b>	<b>Rooms</b>	<b>Indoor Entertainment Area(1) (Approx. ft<sup>(2)</sup>)</b>
Sheboygan, WI(5)	June 2004	183(6)	54,000
Williamsburg, VA	March 2005	301	66,000
<b>Resorts Under Construction:</b>			
Pocono Mountains, PA	Fall 2005	400	91,000
Niagara Falls, ONT(7)	Spring 2006	404	94,000

- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room and fitness room, as well as our Aveda concept spa, 3D virtual reality theatre, Wiley's Woods and party room in the resorts that have such amenities.
- (2) We purchased this property in November 1999.
- (3) Our Wisconsin Dells property also features 77 condominium units currently under construction.
- (4) Prior to May 2004, we operated this resort as a Great Bear Lodge.
- (5) Our Sheboygan property is branded as a Blue Harbor Resort. This resort is subject to a 98-year and 11-month ground lease with the Redevelopment Authority of the City of Sheboygan.
- (6) Our Sheboygan resort includes an additional 64 individually owned two and four bedroom condominium units.
- (7) Ripley's, our licensee, owns this resort. We are assisting Ripley's with construction management and other pre-opening matters related to the Great Wolf Lodge in Niagara Falls. We have granted Ripley's a license to use the Great Wolf Lodge name for this resort and other intellectual property for ten years after opening. We have agreed to enter into a management agreement, pursuant to which we expect to operate the resort on behalf of Ripley's for five years, and a central reservations agreement. In conjunction with this project, we expect to receive a one-time construction fee and ongoing license, central reservation and management fees.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General* We have prepared these unaudited interim financial statements according to the rules and regulations of the Securities and Exchange Commission. Accordingly, we have omitted certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the financial statements, accompanying notes and other information included in our Annual Report on Form 10-K for the year ended December 31, 2004. Certain 2004 amounts have been reclassified to conform with the 2005 presentation.

In our opinion, the accompanying unaudited consolidated and combined interim financial statements reflect all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the financial condition and results of operations and cash flows for the periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our actual results could differ from those estimates.

The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

*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.

*Stock Based Compensation* We have issued stock options under our 2004 Incentive Stock Plan. As permitted under Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, we have elected to account for such options in accordance with APB Opinion No. 25 (APB 25), Accounting for Stock



**Table of Contents**

Issued to Employees. Under APB 25, the total compensation expense recognized is equal to the difference between the award's exercise price and the underlying stock's market prices at the measurement date. Our stock options were granted with an exercise price equal to their fair market value; therefore no compensation expense was recorded in the three months ended March 31, 2005. Had compensation costs been determined under the fair value method as set forth in SFAS 123, our pro forma net loss and net loss per share for the three months ended March 31, 2005, would have been as follows:

Net loss, as reported	\$ (2,325)
Compensation expense, SFAS 123 fair value method	(328)
Pro forma net loss	\$ (2,653)
Pro forma net loss per share Basic	\$ (0.09)
Pro forma net loss per share Diluted	\$ (0.09)

The weighted average fair value for the options granted is \$4.94. The SFAS 123 fair value of options granted in the three months ended March 31, 2005, was estimated using a Black-Scholes option-pricing model with the following assumptions:

Dividend yield	
Weighted-average, risk free interest rate	3.65%
Weighted-average, expected life of option	6.0 years
Expected stock price volatility	40%

*Segments* We view our operations as principally one segment and the financial information disclosed herein represents all of the financial information related to our principal segment.

*Recent Accounting Pronouncements* In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities, (FIN 46) an interpretation of Accounting Research Bulletin No. 51, Consolidated Financial Statements. In December 2003, the FASB issued a revision of FIN 46 (FIN 46R) to clarify some of its provisions. FIN 46R deferred the effective date for FIN 46 for arrangements entered into before February 1, 2003 and results in multiple effective dates based on the nature as well as the creation date of the variable interest entity. Variable interest entities created after January 31, 2003 but prior to December 24, 2003, may be accounted for either based on the original or the revised interpretations. Variable interest entities created after December 24, 2003 must be accounted for under the revised interpretations. FIN 46R is effective for periods ending after March 15, 2004.

The Predecessor applied FIN 46 to variable interest entities created after January 31, 2003 for the year ended December 31, 2003. The Predecessor applied FIN 46R to variable interest entities effective January 1, 2004. Prior to the implementation of FIN 46 and FIN 46R, the Predecessor consolidated entities for which it controlled major management and operating decisions. There was no financial statement impact from the adoption of FIN 46 and FIN 46R.

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R), that requires companies to expense the value of employee stock options, discounts on employee stock purchase plans and similar awards. Under SFAS 123R, share-based payment awards result in compensation expense that will be measured at fair value on the awards' grant date, based on the estimated number of awards that are expected to vest. SFAS 123R is effective for periods beginning the first fiscal year after June 15, 2005, and applies to all outstanding and unvested

share-based payment awards at the adoption date. We have not completed our evaluation of the impact of adopting SFAS 123R.

### **3. PURCHASE ACCOUNTING IN CONNECTION WITH THE IPO**

The IPO closed on December 20, 2004. In conjunction with the Formation Transactions completed on that date, we issued a total of 14,032,896 shares of our common stock. We also paid cash of approximately \$97,600 to buy-out certain investors in the resort-owning entities and interests held by AIG SunAmerica, Inc. in the Wisconsin Dells and Sandusky entities.

**Table of Contents**

We recorded the Formation Transactions by applying the purchase method of accounting in connection with our acquisition of the seven resort-owning entities. In conjunction with purchase accounting we:

Recorded property and equipment, other assets, debt and other liabilities at their preliminarily estimated fair values;

Recorded a deferred tax liability resulting from the difference between the preliminarily estimated fair values and the tax bases of assets acquired from the seven resort-owning entities. We recorded this liability at our anticipated effective tax rate of 40%;

Eliminated mandatorily redeemable interests of the Predecessor due to the conversion of those ownership interests to our common stock in conjunction with the Formation Transactions; and

Recorded as goodwill the excess of consideration in the purchase transaction over the fair value of net tangible assets acquired from the seven resort-owning entities.

As a result of this process, we had \$218,727 of goodwill at December 31, 2004, all of which related to the application of purchase accounting in conjunction with the Formation Transactions. Some of the values and amounts used in the initial application of purchase accounting for our consolidated balance sheet were based on preliminary estimates and assumptions. During the three months ended March 31, 2005, we continued to refine and finalize these estimates and assumptions. As a result of this process, we recorded adjustments to the estimated fair market values of property and equipment acquired, resulting in an increase to property and equipment of \$30,700, an increase to accrued expenses of \$301, an increase in deferred tax liability of \$12,059, and a decrease in goodwill of \$18,340.

In the first quarter of 2005, we changed our estimate of the useful lives used to depreciate our property and equipment. This change in accounting estimate was adopted to more appropriately match the depreciation lives of our property and equipment to their expected useful lives. During the first quarter of 2005, we commissioned a third-party study, which provided information on our property and equipment's fair values, and expected useful lives. The effect of the change in estimated fair values and depreciation lives, in the three months ended March 31, 2005, was a decrease in depreciation expense of \$296. It is impracticable to estimate the effect on future periods.

We expect to continue our process of refining and finalizing our purchase accounting estimates and assumptions during the remainder of 2005. As a result, these preliminary estimates and assumptions are subject to possible additional changes as we finalize them in 2005.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>March 31 2005</b>	<b>December 31 2004</b>
Land	\$ 29,688	\$ 12,064
Building and improvements	114,343	89,294
Furniture, fixtures and equipment	132,987	82,470
Construction in process	61,768	92,544
	338,786	276,372
Less accumulated depreciation	(5,441)	(614)

Property and equipment, net	\$ 333,345	\$ 275,758
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**Table of Contents****5. LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES**

Long-term debt and other long-term liabilities consists of the following:

	<b>March 31, 2005</b>	<b>December 31, 2004</b>
Long-Term Debt:		
Senior credit facility	\$	\$
Traverse City/Kansas City Mortgage Loan	74,794	75,000
Sheboygan Mortgage Loan	29,391	29,475
Junior Subordinated Debentures	51,550	
Other mortgage debt	1,523	1,523
Williamsburg Construction Loan		19,011
Poconos Construction Loan		5,598
Other Long-Term Liabilities:		
City of Sheboygan bonds	8,098	8,063
City of Sheboygan loan	4,079	3,995
	169,435	142,665
Less current portion of long-term debt	(1,834)	(27,794)
	\$ 167,601	\$ 114,871

*Senior Credit Facility* Upon closing the IPO, we entered into a \$75,000 senior secured revolving credit facility with a syndicate of banks. The loan is secured by our Wisconsin Dells and Sandusky resorts and is not drawn as of March 31, 2005. Future borrowings under this facility will bear interest at LIBOR plus a margin of 2.25% to 3.00% depending upon our leverage ratio from time to time. The maximum amount of indebtedness we may incur under the facility is equal to 3.75 multiplied by the combined EBITDA (adjusted for non-recurring items, unusual items, infrequent items and asset impairment charges) of the two resorts securing the facility plus up to \$5,400 relating to enhancements to the waterpark facility for the Wisconsin Dells property. The facility has customary bank covenants including the maximum level of total debt, the minimum level of interest coverage, and the minimum level of fixed charge coverage. The facility also includes an annual unused commitment fee of 0.5%.

*Traverse City/Kansas City Mortgage Loan* Upon closing the IPO, we entered into a \$75,000, ten-year loan secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96% and is subject to a 25-year principal amortization schedule. The loan has customary financial and operating debt compliance covenants, including a minimum debt service coverage ratio, representing the combined EBITDA (adjusted for non-recurring items, unusual items, infrequent items and asset impairment charges) of the two resorts divided by their combined annual interest expense and principal amortization. The loan also has customary prohibitions on our ability to prepay the loan prior to maturity. We were in compliance with all mortgage loan covenants at March 31, 2005.

*Sheboygan Mortgage Loan* The Sheboygan mortgage loan is secured by our Sheboygan resort. The loan converted from a construction loan into a mortgage loan in January 2005. The loan matures in January 2008 and bears interest at a floating rate of prime plus 200 basis points and is subject to a 20-year principal amortization schedule. The loan has customary covenants associated with a single asset mortgage. There are no prohibitions or fees associated with the repayment of the loan principal. We were in compliance with the mortgage loan covenants at March 31, 2005.

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

The Trust used the proceeds of the offering and our investment to purchase from us \$51,550 of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The costs of the

**Table of Contents**

trust preferred offering totaled \$1,600, including \$1,500 of underwriting commissions and expenses and \$100 of costs incurred directly by the Trust. The Trust paid these costs utilizing an investment from us. These costs are being amortized over a 30-year period. The proceeds from our debenture sale, net of the costs of the trust preferred offering and our investment in the Trust, were \$48,400. We used the net proceeds to retire the Poconos construction loan.

As a result of the issuance of FIN46R and the accounting profession's application of the guidance provided by the FASB, issuer trusts, like the Trust, are generally variable interest entities. We have determined that we are not the primary beneficiary under the Trust, and accordingly we do not consolidate the financial statements of the Trust into our consolidated financial statements.

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

*Williamsburg Construction Loan* The Williamsburg construction loan was incurred to construct the Williamsburg resort property. In February 2005, after drawing an additional \$10,242 on this loan, we retired the loan in full using cash on hand.

*Poconos Construction Loan* The Poconos construction loan was incurred to construct the Poconos resort property. In March 2005, after drawing an additional \$13,550 on this loan, we retired the loan in full using cash on hand and the proceeds of junior subordinated debentures we issued in March 2005.

*City of Sheboygan bonds* The City of Sheboygan (the City) bonds amount represents the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the Predecessor's 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 these BANs. The notes bear interest at 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of bond anticipation notes 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 to the Predecessor in conjunction with the Predecessor's 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 and other long-term liabilities are as follows:

	<b>Through March 31,</b>
2006	\$ 1,834
2007	2,008
2008	29,569
2009	1,559
2010	1,696

Thereafter	132,769
Total	\$ 169,435



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

We calculate our basic earnings per common share by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding. Our diluted earnings per common share assumes the issuance of common stock for all potentially dilutive stock equivalents outstanding. In periods in which there is a loss, potentially dilutive stock equivalents are excluded 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, those shares of common stock are treated as treasury stock for purposes of our earnings per share computations and therefore excluded from the basic and diluted earnings per share calculations. Basic and diluted earnings per common share are as follows:

	<b>Three months ended March 31, 2005</b>
Net loss attributable to common shares	\$ (2,325)
Weighted average common shares outstanding basic and diluted	30,133
Net loss per share basic and diluted	\$ (0.08)

**7. DISCONTINUED OPERATIONS**

As of March 31, 2004, the Predecessor had two hotels classified as held for sale. Operating results and the gain on disposition for the hotels classified as held for sale are included in income (loss) from discontinued operations in the combined statements of operations for the quarter ended March 31, 2004.

On December 20, 2004, in connection with the Formation Transactions, the Predecessor spun-off its non-resort interests to the existing shareholders of GLC. As a result, we have included the operations of the spun-off entities in discontinued operations for the quarter ended March 31, 2004.

Operating activity of the discontinued operations consisted of the following:

	<b>Three months ended March 31, 2004</b>
Revenues	\$ 1,501
Expenses	(1,481)
Income (loss) from discontinued operations	\$ 20

**8. SUBSEQUENT EVENTS**

On May 4, 2005, we announced the formation of a joint venture with Paramount Parks, Inc., a unit of Viacom Inc., to develop a 39-acre, \$100+ million Great Wolf Lodge resort and conference center at Paramount's Kings Island in Mason, Ohio. We will operate the resort under our Great Wolf Lodge brand and will maintain a majority of the equity position in the project. Paramount will have a minority equity interest in the development by contributing the land needed for the resort. The resort will be a 404-suite resort with a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort is scheduled to begin in the summer of 2005 with opening slated for late 2006.

**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.*

## **Table of Contents**

### **Overview**

*Formation.* The terms Great Wolf Resorts, us, we and our are used in this report refer to Great Wolf Resorts, Inc. Through our controlling interest in Great Wolf Resort Operating Partnership, L.L.L.P., or the Operating Partnership, of which we are the sole general partner, and the subsidiaries of the Operating Partnership, we develop, own and operate family entertainment resorts.

We were formed to succeed to certain businesses of the Great Lakes Predecessor (the Predecessor), which was not a legal entity but rather a combination of numerous entities. The Predecessor consisted of the following, all of which were under common management:

The Great Lakes Companies, Inc. (GLC) and its consolidated subsidiaries;

Great Wolf Lodge of Traverse City, LLC;

Great Wolf Lodge of Kansas City, LLC;

Blue Harbor Resort Sheboygan, LLC;

Great Wolf Lodge of Williamsburg, LLC; and

Great Wolf Lodge of the Poconos, LLC.

The Predecessor financial statements did not include entities that owned Great Wolf Lodges in Wisconsin Dells, Wisconsin and Sandusky, Ohio. These entities, although they were managed by GLC, were controlled by affiliates of AIG SunAmerica, Inc.

The Predecessor had developed and operated hotels since 1995. In 1999, the Predecessor began its resort operations by purchasing the Great Wolf Lodge in Wisconsin Dells, Wisconsin and developing the Great Wolf Lodge in Sandusky, Ohio, which opened in 2001. In 2003, the Predecessor opened two additional Great Wolf Lodge resorts, one in Traverse City, Michigan and the other in Kansas City, Kansas. In June 2004, the Predecessor opened the Blue Harbor Resort in Sheboygan, Wisconsin. Subsequently, the Predecessor had two additional Great Wolf Lodge resorts under construction, one in Williamsburg, Virginia and the other in the Pocono Mountains region of Pennsylvania, and had licensed a resort owned by a third party that was under construction in Niagara Falls, Ontario (Canada). The Great Wolf Lodge in Williamsburg, Virginia, opened in March 2005.

We were incorporated in May 2004 as a Delaware corporation in anticipation of our initial public offering of common stock (the IPO). The IPO closed on December 20, 2004, concurrently with the completion of various formation transactions (the Formation Transactions).

Pursuant to the Formation Transactions:

The Predecessor contributed its hotel management and multifamily housing management and development assets, which were unrelated to the resort business, to two subsidiaries of the Predecessor and then distributed the interests in those subsidiaries to the former shareholders of the Predecessor.

We effected, through our Operating Partnership, the acquisition of GLC and each resort-owning entity. Pursuant to these acquisitions, investors of GLC and the resort-owning entities received cash, unregistered shares of our common stock or a combination of cash and unregistered shares of our common stock. We issued 13,901,947 shares of our common stock and paid approximately \$97,600 in cash in connection with these acquisitions.



**Table of Contents**

We issued an aggregate of 130,949 shares of unregistered common stock to holders of tenant in common interests in two of our resorts.

These transactions consolidated the ownership of our resort properties and property interests to Great Wolf Resorts. During the period from our formation until we commenced operations upon closing of our IPO on December 20, 2004, we did not have any material corporate activity.

The IPO consisted of the sale of 16,100,000 shares of common stock at a price per share of \$17.00, generating gross proceeds of \$273,700. The net proceeds to us were approximately \$248,700 after deducting an aggregate of \$19,200 in underwriting discounts and commissions paid to the underwriters and \$5,800 in other expenses incurred in connection with the IPO.

As of March 31, 2005, we own and operate five Great Wolf Lodge resorts, our signature northwoods-themed resorts, and one Blue Harbor Resort, a nautical-themed property. In addition, we own one Great Wolf Lodge resort in the Pocono Mountains, Pennsylvania, that is under construction and scheduled to open for business in the fall of 2005. We are also the licensor and manager of an additional Great Wolf Lodge resort in Niagara Falls, Ontario that is owned and under development by an affiliate of Ripley Entertainment Inc., or Ripley's.

*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 the United States of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. 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 from our resorts. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms, which includes admission to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, an ice cream shop and confectionery, full-service spa, game arcade, gift shop and meeting space. We also expect to generate revenues from licensing arrangements, management fees and construction fees with respect to properties owned by third parties, such as the licensing agreement we have entered into and management arrangement we have agreed to enter into with Ripley's in connection with the Niagara Falls, Ontario resort.

The following table presents an overview of our portfolio of operating resorts and resorts under construction (including the Niagara resort that will be owned by a third party licensee):

<b>Location</b>	<b>Opened/Target Opening</b>	<b>Rooms</b>	<b>Indoor Entertainment Area(1) (Approx. ft<sup>(2)</sup>)</b>
<b>Existing Resorts:</b>			
Wisconsin Dells, WI	May 1997(2)	309(3)	64,000
Sandusky, OH(4)	March 2001	271	41,000
Traverse City, MI	March 2003	281	51,000
Kansas City, KS	May 2003	281	49,000
Sheboygan, WI(5)	June 2004	183(6)	54,000
Williamsburg, VA	March 2005	301	66,000

**Resorts Under Construction:**

Pocono Mountains, PA	Fall 2005	400	91,000
Niagara Falls, ONT(7)	Spring 2006	404	94,000

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- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room and fitness room, as well as our Aveda concept spa, 3D virtual reality theatre, Wiley's Woods and party room in the resorts that have such amenities.

**Table of Contents**

- (2) We purchased this property in November 1999.
- (3) Our Wisconsin Dells property also features 77 condominium units currently under construction.
- (4) Prior to May 2004, we operated this resort as a Great Bear Lodge.
- (5) Our Sheboygan property is branded as a Blue Harbor Resort. This resort is subject to a 98-year and 11-month ground lease with the Redevelopment Authority of the City of Sheboygan.
- (6) Our Sheboygan resort includes an additional 64 individually owned two and four bedroom condominium units.
- (7) Ripley's, our licensee, owns this resort. We are assisting Ripley's with construction management and other pre-opening matters related to the Great Wolf Lodge in Niagara Falls. We have granted Ripley's a license to use the Great Wolf Lodge name for this resort and other intellectual property for ten years after opening. We have agreed to enter into a management agreement, pursuant to which we expect to operate the resort on behalf of Ripley's for five years, and a central reservations agreement. In conjunction with this project, we expect to receive a one-time construction fee and ongoing license, central reservation and management fees.

*Subsequent Event.* On May 4, 2005, we announced the formation of a joint venture with Paramount Parks, a unit of Viacom Inc., to develop a 39-acre, \$100+ million Great Wolf Lodge resort at Paramount's Kings Island in Mason, Ohio. We will operate the resort under our Great Wolf Lodge brand and will maintain a majority of the equity position in the project. Paramount will have a minority equity interest in the development by contributing the land needed for the resort. The resort will be a 404-suite resort with a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort is scheduled to begin in the summer of 2005 with opening slated for late 2006.

*Industry Trends and Outlook.* 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. The concept of a family entertainment resort with an indoor waterpark was first introduced in Wisconsin Dells, Wisconsin and has evolved there over the past 15 years. We believe those resorts have historically outperformed standard hotels in that market. We believe that the rate premiums and increased market share in Wisconsin Dells have been significant and that no other operator or developer other than Great Wolf Resorts has established a regional portfolio of family entertainment resorts featuring indoor waterparks. We intend to continue to expand our portfolio of owned resorts throughout the United States and to selectively seek licensing and management opportunities domestically and internationally. The resorts we are currently constructing and plan to develop in the future require significant industry knowledge and substantial capital resources. We believe that a number of other resort operators are developing or considering the development of family entertainment resorts that will compete directly with our resorts. In particular, one of our competitors has opened a resort in Sandusky and another has a resort under construction in Sandusky. Another competitor is constructing a resort near Traverse City.

Our primary business objective is to increase long-term stockholder value. We believe we can increase stockholder value by executing our internal and external growth strategies. Our primary internal growth strategies are to: maximize total resort revenue; minimize costs by leveraging our economies of scale; and build upon our existing brand awareness and loyalty in order to compete more effectively. Our primary external growth strategies are to: capitalize on our first-mover advantage by being the first to develop and operate family entertainment resorts featuring indoor waterparks in our selected target markets; focus on development and strategic growth opportunities by seeking to develop and open at least two new owned resorts in target markets each year for the next several years and target selected licensing 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



**Table of Contents**

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.

*Revenue and Key Performance Indicators.* We seek to generate positive cash flows and net income from each of our owned resorts. Our rooms revenue represents sales to guests of room nights at our resorts, and is the largest contributor to our cash flows and profitability. Rooms revenue accounted for approximately 67% of our total resort revenue for the three months ended March 31, 2005. 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

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.

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. ADR and RevPAR only include rooms revenue. Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the three months ended March 31, 2005, approximately 33% of our

total resort revenues consisted of non-rooms revenue.

We use RevPAR and Total RevPAR to evaluate the blended effect that changes in occupancy, ADR and Total RevPOR have on our profitability. We focus on increasing ADR and Total RevPOR because those increases can have the greatest positive impact on our profitability. In addition, we seek to maximize occupancy, as increases in

## **Table of Contents**

occupancy generally lead to greater total revenues at our resorts, and maintaining certain occupancy levels is key to covering our fixed costs. Increases in total revenues as a result of higher occupancy are, however, typically accompanied by additional incremental costs (including housekeeping services, utilities and room amenity costs). In contrast, increases in total revenues from higher ADR and Total RevPOR are typically accompanied by lower incremental costs, and result in a greater increase in profitability.

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 for further discussion of our use of EBITDA and a reconciliation to net income.

## **Recent Accounting Pronouncements**

In December 2004, the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R), that requires companies to expense the value of employee stock options, discounts on employee stock purchase plans and the similar awards. Under SFAS 123R, share-based payment awards result in compensation expense that will be measured at fair value on the awards grant date, based on the estimated number of awards that are expected to vest. SFAS 123R is effective for periods beginning the first fiscal year after June 15, 2005, and applies to all outstanding and unvested share-based payment awards at the adoption date. We have not completed our evaluation of the impact of adopting SFAS 123R.

## **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) interest expense, net; (b) income taxes and (c) depreciation and amortization.

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

We believe EBITDA is useful to an investor in evaluating our operating performance because:

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

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

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

Our management uses EBITDA:

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

and amortization, from our operating results;

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

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

**Table of Contents**

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

Covenants in our revolving credit facility also require us to meet financial tests based upon EBITDA as adjusted for certain items.

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 tables shown below reconcile net loss to EBITDA for the periods presented.

	<b>Great Wolf Resorts</b>	<b>Predecessor</b>
	<b>Three months ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net loss	\$ (2,325)	\$ (1,918)
Adjustments:		
Interest expense, net	764	1,518
Income tax benefit	(1,534)	
Depreciation and amortization	7,127	3,043
EBITDA	\$ 4,032	\$ 2,643

**Results of Operations****General**

Our and the Predecessor's result of operations for the three months ended March 31, 2005 and 2004 are not directly comparable due primarily to the impact of the IPO and the Formation Transactions, our new debt and the repayment of debt upon the consummation of the IPO. In addition, in March 2005 our Great Wolf Lodge in Williamsburg, Virginia opened.

**Great Wolf Resorts Financial Information**

Great Wolf Resorts' financial information includes:

our corporate entity that provides resort development and management services;

our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, and Williamsburg operating resorts; and

our Pocono Mountains resort that is under construction.

*Revenues.* Our revenues consist of lodging revenue, which includes rooms, food and beverage, and other department revenues from our resorts.

*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 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;

**Table of Contents**

property operation and maintenance expenses; and

depreciation and amortization.

***Great Lakes Predecessor Financial Information***

The Predecessor combined historical financial information included the following:

The Great Lakes Companies, Inc. and its consolidated subsidiaries, including development of, ownership interests in, and management contracts with respect to, resorts and certain non-resort hotels and multifamily housing development and management assets;

the entities that owned our Traverse City, Kansas City and Sheboygan operating resorts; and

the entities that owned our Williamsburg and Pocono Mountains resorts that were under construction.

The Traverse City, Kansas City and Sheboygan resorts opened in March 2003, May 2003 and June 2004, respectively. Therefore, Predecessor's historical results of operations only reflected operating results for Traverse City, Kansas City and Sheboygan for those periods after the resort opening dates.

The Predecessor's financial information did not include the entities that own the Wisconsin Dells and Sandusky operating resorts as those entities were controlled by affiliates of AIG SunAmerica.

*Revenues.* The Predecessor's revenues consisted of the following:

lodging revenue, which consists of rooms, food and beverage and other department revenues from its consolidated and combined hotels and resorts;

management fee revenue from both resort activity and non-resort activity, which includes fees received under its management agreements; and

other revenue, which consists of accounting fees, development fees, central reservation fees, construction management fees and other fees.

The Predecessor employed the staff at its managed properties. Under its management agreements, the hotel and resort owners reimbursed Predecessor 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 Predecessor's income statement. Under this pronouncement, the reimbursement of payroll, benefits and costs is recorded as revenue on Predecessor's statements of operations, with a corresponding expense recorded as other expenses from managed properties.

*Operating Expenses.* The Predecessor's departmental operating expenses consisted of rooms, food and beverage and other department expenses.

The Predecessor's other operating expenses included the following items:

selling, general and administrative expenses, which were associated with the management of hotels and 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;



**Table of Contents**

depreciation and amortization; and

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

***Three months ended March 31, 2005 for Great Wolf Resorts, Inc. compared with the three months ended March 31, 2004 for the Predecessor***

The following table shows key operating statistics for our resorts for the three months ended March 31, 2005 and 2004:

	All Properties		Same Store Comparison (a)		
	First Quarter 2005	First Quarter 2005	First Quarter 2004	Increase (Decrease)	
				\$	%
<b>Occupancy</b>	69.9%	71.7%	68.0%	N/A	5.4%
<b>ADR</b>	\$ 211.17	\$ 216.58	\$ 209.67	\$ 6.91	3.3%
<b>RevPAR</b>	\$ 147.55	\$ 155.33	\$ 142.66	\$ 12.67	8.9%
<b>Total RevPOR</b>	\$ 315.04	\$ 311.44	\$ 304.44	\$ 7.00	2.3%
<b>Total RevPAR</b>	\$ 220.13	\$ 223.36	\$ 207.14	\$ 16.22	7.8%

(a) Same store comparison includes properties that were open for the full periods in 2004 and 2005 (that is, the Wisconsin Dells, Sandusky, Traverse City and Kansas City resorts).

The Traverse City, Kansas City, Sheboygan, and Williamsburg resorts opened in March 2003, May 2003, June 2004, and March 2005, respectively. We acquired the Wisconsin Dells and Sandusky resorts as part of the IPO in December 2004. As a result, comparisons of changes in total revenue, rooms revenue and other revenue between the three month periods ended March 31, 2005 (during which five resorts were open for the entire period and one resort opened) and March 31, 2004 (during which two resorts were open) are not meaningful.

Presented below are selected amounts from the statements of operations for the quarters ended March 31, 2005 and 2004.

	Three months ended March 31,		
	Great Wolf Resorts 2005	Predecessor 2004	Increase (Decrease)
Revenues	\$ 26,996	\$ 14,752	\$ 12,244
Departmental operating expenses	9,669	3,787	5,882
Selling, general and administrative	7,238	3,206	4,032
Property operating costs	6,057	1,787	4,270
Depreciation and amortization	7,127	2,716	4,411
Net operating loss	(3,095)	(84)	(3,011)

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Net interest expense	764	1,205	(441)
Gain on sale of investments		(1,072)	1,072
Interest on mandatorily redeemable shares		1,692	(1,692)

**Table of Contents**

	<b>Three months ended March 31,</b>		
	<b>Great Wolf Resorts</b>		
	<b>2005</b>	<b>Predecessor 2004</b>	<b>Increase (Decrease)</b>
Income tax benefit	(1,534)		(1,534)
Loss from continuing operations	(2,325)	(1,938)	1,938
Net loss	\$ (2,325)	\$ (1,918)	\$ (407)

*Revenues.* Total revenues increased primarily due to revenues related to the resorts in Wisconsin Dells and Sandusky, which were purchased as part of the IPO in December 2004, and the opening of the Sheboygan resort in June 2004. Revenues for the resorts in Wisconsin Dells, Sandusky and Sheboygan were \$5,066, \$5,662 and \$3,204, respectively, for the three months ended March 31, 2005. This increase in revenue was offset by \$3,340 of revenue recorded in the three months ended March 31, 2004, related to revenue from managed properties. We had no revenue from managed properties in the three months ended March 31, 2005.

*Operating expenses.* Total departmental expenses increased primarily due to expenses related to the resorts in Wisconsin Dells and Sandusky, which were purchased as part of the IPO in December 2004, and the opening of the Sheboygan resort in June 2004. Departmental expenses for the resorts in Wisconsin Dells, Sandusky and Sheboygan were \$1,879, \$1,881 and \$1,609, respectively, for the three months ended March 31, 2005.

Total other operating expenses increased primarily due to expenses related to the resorts in Wisconsin Dells and Sandusky, which were purchased as part of the IPO in December 2004, and the opening of the Sheboygan resort in June 2004.

Selling, general and administrative expenses for the resorts in Wisconsin Dells, Sandusky and Sheboygan were \$1,039, \$1,146 and \$1,087, respectively, for the three months ended March 31, 2005.

Property operating costs for the resorts in Wisconsin Dells, Sandusky and Sheboygan were \$701, \$644 and \$348, respectively, for the three months ended March 31, 2005. We also incurred \$2,600 of pre-opening costs related to our Williamsburg resort.

Depreciation and amortization for the resorts in Wisconsin Dells, Sandusky and Sheboygan were \$809, \$899 and \$1,061, respectively, for the three months ended March 31, 2005. Loan fees of \$731 and \$1,385 for Williamsburg and Poconos, respectively, were written off to amortization expense at the time the construction loans were paid off during the three months ended March 31, 2005.

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

Our increased operating loss in the 2005 period.

A gain on sale of investments in the 2004 period (we did not have any comparable sales in the 2005 period). This decrease was partially offset by:

Interest on mandatorily redeemable shares incurred in the 2004 period was not incurred in the 2005 period due to the conversion of the mandatorily redeemable interests to common stock in conjunction with the Formation Transactions.

Income tax benefit in the 2005 period with no income tax benefit in the 2004 period, reflecting our structure after the IPO as a C Corporation that pays income taxes, as opposed to the Predecessor's pass-through entities with no income tax obligations in the 2004 period.

**Liquidity and Capital Resources**

As of March 31, 2005, we had total indebtedness of \$169,435 summarized as follows:

**Table of Contents**

	<b>March 31, 2005</b>
Long-Term Debt:	
Senior credit facility	\$
Traverse City/Kansas City Mortgage Loan	74,794
Sheboygan Mortgage Loan	29,391
Junior Subordinated Debentures	51,550
Other mortgage debt	1,523
Other Long-Term Liabilities:	
City of Sheboygan bonds	8,098
City of Sheboygan loan	4,079
	169,435
Less current portion of long-term debt	(1,834)
	\$ 167,601

*Senior Credit Facility* Upon closing the IPO, we entered into a \$75,000 senior secured revolving credit facility with a syndicate of banks. The loan is secured by our Wisconsin Dells and Sandusky resorts and was not drawn as of March 31, 2005. Future borrowings under this facility will bear interest at LIBOR plus a margin of 2.25% to 3.00% depending upon our leverage ratio from time to time. The maximum amount of indebtedness we may incur under the facility is equal to 3.75 multiplied by the combined EBITDA (adjusted for non-recurring items, unusual items, infrequent items and asset impairment charges) of the two resorts securing the facility plus up to \$5,400 relating to enhancements to the waterpark facility for the Wisconsin Dells property. The facility has customary bank covenants including the maximum level of total debt, the minimum level of interest coverage, and the minimum level of fixed charge coverage. The facility also includes an annual unused commitment fee of 0.5%.

*Traverse City/Kansas City Mortgage Loan* Upon closing the IPO, we entered into a \$75,000, ten-year loan secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96% and is subject to a 25-year principal amortization schedule. The loan has customary financial and operating debt compliance covenants, including a minimum debt service coverage ratio, representing the combined EBITDA (adjusted for non-recurring items, unusual items, infrequent items and asset impairment charges) of the two resorts divided by their combined annual interest expense and principal amortization. The loan also has customary prohibitions on our ability to prepay the loan prior to maturity. We were in compliance with all mortgage loan covenants at March 31, 2005.

*Sheboygan Mortgage Loan* The Sheboygan mortgage loan is secured by our Sheboygan resort. The loan converted from a construction loan into a mortgage loan in January 2005. The loan matures in January 2008 and bears interest at a floating rate of prime plus 200 basis points and is subject to a 20-year principal amortization schedule. The loan has customary covenants associated with a single asset mortgage. There are no prohibitions or fees associated with the repayment of the loan principal. We were in compliance with the mortgage loan covenants at March 31, 2005.

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

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

## **Table of Contents**

As a result of the issuance of FIN46R and the accounting profession's application of the guidance provided by the FASB, issuer trusts, like Great Wolf Capital Trust I, are generally variable interest entities. We have determined that we are not the primary beneficiary under the Trust, and accordingly we will not consolidate the financial statements of the Trust into its consolidated financial statements.

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

*City of Sheboygan bonds* The City of Sheboygan (the City) bonds amount represents the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the Predecessor's 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 these BANs. The notes bear interest at 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of bond anticipation notes 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 to the Predecessor in conjunction with the Predecessor's 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.

### ***Short-Term Liquidity Requirements***

Our short-term liquidity requirements consist primarily of funds necessary to pay operating expenses, including:

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

property taxes and insurance expenses;

interest expense and scheduled principal payments on outstanding indebtedness; and

general and administrative expenses.

Historically, we have satisfied our short-term liquidity requirements through operating cash flows, proceeds from borrowings and equity contributions from investors. We believe that cash provided by our operations, together with borrowing capacity under our line of credit, will be sufficient to fund our requirements for working capital, capital expenditures and debt service for the next twelve months.

### ***Long-Term Liquidity Requirements***

Our long-term liquidity requirements consist primarily of funds necessary to pay for scheduled debt maturities, renovations, expansion and other non-recurring capital expenditures that need to be made periodically to our resorts as well as the costs associated with the development of new resorts. We expect to meet these needs through existing working capital, cash provided by operations and a combination of mortgage financing on properties being developed, additional borrowings under our revolving credit facility, and the issuance of equity instruments, including common

stock, or additional or replacement debt, if market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our revolving credit facility and secured mortgage financing are material sources to satisfy our long-term liquidity requirements. As such, compliance with their financial and operating debt compliance covenants is material



**Table of Contents**

to our liquidity. Non-compliance with the covenants would have a material adverse effect on our financial condition and liquidity.

As we develop future resorts, we expect to finance a portion of the total construction cost of each resort through a stand-alone construction loan on the resort. We expect to fund the remainder of the total construction cost through cash provided from a combination of sources, including our revolving credit facility, sale of our condominiums, cash on hand and cash provided by operating activities. We expect to consider converting stand-alone construction loans to longer-term permanent financing after each resort commences operations.

**Contractual Obligations**

The following table summarizes our contractual obligations as of March 31, 2005:

	Total	Payment Terms			More Than 5 Years
		Less Than 1 Year	1-3 Years	3-5 Years	
Long-Term Debt Obligations(1)	\$ 169,435	\$ 1,834	\$ 31,577	\$ 3,255	\$ 132,769
Operating Lease Obligations	1,869	401	820	648	
Construction Contracts	28,621	28,621			
Total	\$ 199,925	30,856	\$ 32,297	\$ 3,903	\$ 132,769

- (1) Includes \$8,098 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and \$4,079 of fixed rate debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by our Sheboygan resort.

**Working Capital**

We had \$65,344 of available cash and cash equivalents and \$33,059 of working capital (current assets less current liabilities) at March 31, 2005, compared to \$79,417 of available cash and cash equivalents and \$11,034 of working capital at December 31, 2004. Cash at December 31, 2004, was higher than at March 31, 2005; mainly due to the proceeds of the IPO in December 2004. The increase in working capital is mainly due to the payment of debt that was classified as current at December 31, 2004.

**Cash Flows**

*Three months ended March 31, 2005 for Great Wolf Resorts, Inc. compared with the three months ended March 31, 2004 for the Predecessor*

	2005	2004	Increase (Decrease)
Net cash (used in) provided by operating activities	\$ (8,644)	\$ 1,043	\$ (9,687)
Net cash used in investing activities	(30,625)	(27,949)	(2,676)
Net cash provided by financing activities	25,196	30,261	(5,065)

*Operating Activities.* The decrease in net cash provided by operating activities for the three months ended March 31, 2005, as compared to the three months ended March 31, 2004, resulted primarily from an increase in net loss, an increase in prepaid expenses and other assets, and a decrease in accounts payable and other liabilities, partially offset by an increase in depreciation and amortization.

*Investing Activities.* The increase in net cash used in investing activities for the three months ended March 31, 2005, as compared to the three months ended March 31, 2004, resulted primarily from an increase in capital expenditures in the 2005 period as compared to the 2004 period and a decrease in the change in equity escrow.

## **Table of Contents**

*Financing Activities.* Net cash provided by financing activities decreased for the three months ended March 31, 2005, as compared to the three months ended March 31, 2004, primarily due to an increase in loan fees paid and a decrease in net member contributions, partially offset by an increase in net borrowing activity.

## **Inflation**

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

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

Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. In the future, we intend to 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 and anticipate entering into derivative contracts only with major financial institutions with investment grade credit ratings.

As of March 31, 2005, we had total indebtedness of approximately \$169,435. This debt consisted of:

\$74,794 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

\$29,391 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate equal to prime plus 200 basis points. The total rate was 7.75% at March 31, 2005.

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

\$8,098 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 \$4,079 of noninterest bearing debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by the Sheboygan resort; and

\$1,523 of other fixed rate debt.

As of March 31, 2005, the fair values of the indebtedness described above approximate their carrying values as the terms are similar to those currently available to us for indebtedness with similar risks and remaining maturities.

If the prime rate were to increase by 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$294 annually. If the prime rate were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately \$294 annually.

## **ITEM 4. CONTROLS AND PROCEDURES**

### **Evaluation of Disclosure Controls and Procedures**

Based on evaluations at March 31, 2005, our principal executive officer and principal financial officer, with the participation of our management team, have concluded that our disclosure controls and procedures (as defined in Rules 13a-15 (e) and 15d-15 (e) under the Securities Exchange Act) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC.

**Table of Contents**

**Changes in Internal Controls**

During the period covered by this quarterly report on Form 10-Q, we have not made any changes to our internal control over financial reporting (as referred to in Paragraph 4(c) of the Certifications of our principal executive officer and principal financial officer included as exhibits to this report) that have materially affected, or are reasonably likely to affect our internal control over financial reporting.

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

We are party to various legal actions in the ordinary course of our business. We believe that these actions are routine in nature and incidental to the operation of our business. While the outcome of these actions cannot be predicted with certainty, we believe that the ultimate resolution of these matters will not have a material, adverse impact on our business, financial condition or prospects.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

<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	

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Form of Amended and Restated Bylaws of Great Wolf Resorts, Inc. effective December 20, 2004  
(incorporated herein by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 filed August 12, 2004)

- 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 JPMorgan 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

**Table of Contents**

<b>Exhibit Number</b>	<b>Description</b>
	Chase Manhattan Bank USA, National Association, as Delaware trustee; JPMorgan Chase Bank, National Association, as property trustee; Great Wolf Resorts, Inc., as depositor; and James A. Calder, Alex G. 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)
10.1	Revolving Credit Agreement, by and among Great Wolf Resorts, Inc., GWR Operating Partnership, L.L.P., the Subsidiary Guarantors named therein, Citicorp North America, Inc., Societe Generale, Citigroup Global Markets, Inc., SG Americas Securities LLC and Calyon New York Branch (incorporated herein by reference to Exhibit 10.15 to the Company's Registration Statement on Form S-1 filed January 21, 2005) as amended by First Letter Amendment dated February 10, 2005 (filed herewith) and by Second Letter Amendment dated as of April 25, 2005 (filed herewith).
10.2	Purchase Agreement, dated as of March 15, 2005, among Great Wolf Resorts, Inc., Great Wolf Capital Trust I, Taberna Preferred Funding I, Ltd and Merrill Lynch International (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed March 18, 2005)
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C Section 1350
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

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\* Filed herewith.

+ Indicated management contract or compensatory plan or arrangement required to be filed as an exhibit pursuant to Item 15(c) of Form 10-K.



**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: May 12, 2005