

Great Wolf Resorts, Inc.
Form 10-K
March 05, 2009

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

Form 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the fiscal period ended December 31, 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)*

**122 West Washington Avenue
Madison, Wisconsin 53703**

(Address of principal executive offices)

51-0510250

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

53703

(Zip Code)

Registrant's telephone number, including area code

608 661-4700

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

None

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

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, par value \$0.01 per share

NASDAQ Global Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act. Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Annual Report on Form 10-K or any amendment to this Annual Report on Form 10-K.

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 <input type="radio"/>	Accelerated filer <input checked="" type="radio"/>	Non-accelerated filer <input type="radio"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="radio"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2008, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$135,629,750 based on the closing price on the NASDAQ National Market for such shares.

The number of shares outstanding of the issuer's common stock was 31,005,945 as of March 5, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2009 Annual Meeting of Stockholders are incorporated by reference into Part III. A definitive Proxy Statement pursuant to Regulation 14A will be filed with the Commission no later than April 30, 2009.

Great Wolf Resorts, Inc.
Annual Report on Form 10-K
For the Year Ended December 31, 2008

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PART I

ITEM 1. BUSINESS

Overview and Development

The terms Great Wolf Resorts®, us, we and our are used in this report to refer to Great Wolf Resorts, Inc. and its consolidated subsidiaries. All dollar amounts used in this Annual Report on Form 10-K are in thousands, except per share amounts and operating statistics.

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 600 family suites, each of which sleep from six to ten people and include 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 some or all 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.

We operate ten Great Wolf Lodge resorts (our signature Northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property). We anticipate that most of our future resorts will be developed under our Great Wolf Lodge brand, but we may develop additional nautical-themed resorts under our Blue Harbor Resort brand or other resorts in appropriate markets.

Financial information regarding our reportable segments during 2008 is included in Note 2 of our Notes to Consolidated Financial Statements.

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The following table presents an overview of our portfolio of operating resorts and our resort under construction. As of December 31, 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. ft²)
Existing Resorts:					
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	605		110,000
Grand Mound, WA(6)	49%	2008	398		74,000
Resort Under Construction:					
Concord, NC(7)	100%	March 2009	402		97,000

- (1) Condominium units are individually owned by third parties and are managed by us.
- (2) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room, family tech center, MagiQuest® and fitness room, as well as our spa in the resorts that have such amenities.
- (3) These properties are owned by a joint venture. CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.68% 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) owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016. We will manage the resort on behalf of Ripley through April 2009.
- (5) In late 2007, we began construction on an additional 203 suites and 20,000 square feet of meeting space as an expansion of this resort. The meeting space, along with 92 rooms, was opened in December 2008, with the rest of the rooms completed and opened in January 2009.
- (6)

This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) own 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. The joint venture leases the land for the resort from Chehalis.

- (7) We are developing a Great Wolf Lodge resort in Concord, North Carolina. The Northwoods-themed, 402-suite resort will provide a comprehensive package of destination lodging amenities and activities. Construction on the resort began in October 2007 with expected completion in March 2009.

Northwoods Lodge Theme. Each of our Great Wolf Lodge resorts has a Northwoods lodge theme. Our approximately 5,000 to 9,000 square-foot atrium lobbies, that are between three and five stories high, are designed in a Northwoods cabin motif with exposed timber beams, massive stone fireplaces, mounted wolves and other Northwoods creatures and an animated two-story Clock Tower that provides theatrical entertainment for our younger guests. Throughout the common areas and in each guest suite, we use sturdy, rustic furniture

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that complements the Northwoods theme. We believe that this consistent theme throughout our resorts creates a comfortable and relaxing environment and provides a sense of adventure and exploration that the entire family can enjoy.

Guest Suites. All of our guest suites are themed luxury suites, ranging in size from approximately 385 square feet to 1,970 square feet. Substantially all of the rooms in our resorts also include a private deck or patio, although a lower percentage of rooms in our Grapevine and Grand Mound resorts include this type of amenity. Our resorts offer up to 11 room styles to meet the needs and preferences of our guests, including a selection of rooms with lofts, Jacuzzis and fireplaces. Our standard rooms include two queen beds and a third queen bed in the sleeper sofa, a wet bar, microwave oven, refrigerator and dining and sitting area, and can accommodate up to six people. Our specialty rooms can accommodate up to seven people and provide a separate area for children, including our KidCabin® suites that feature a log cabin bunk bed room, our Wolf Den Suites™ that feature a themed den enclosure with bunk beds and our KidKamp™ suites that feature bunk beds in a themed tent enclosure. We also offer larger rooms, such as our Majestic Bear Suite™ and Grizzly Bear Suite™, which have separate bedrooms with a king bed, a large dining and living area and can accommodate up to eight people. For business travelers we also offer Luxury King Suites that have a king bed, a 32" plasma television, and wireless Internet access. Our guest suites have wallpaper, artwork and linens that continue the Northwoods theme and our resorts provide pay-per-view movies and pay-per-play video games. Some of our resorts also provide room service dining. Our Blue Harbor Resort has similar appropriate nautical-themed named rooms.

Indoor Waterparks. Our existing Great Wolf Lodge indoor waterparks are maintained at a warm and comfortable temperature, range in size from approximately 34,000 to 84,000 square feet and have a Northwoods theme and include decorative rockwork and plantings. The focus of each Great Wolf Lodge waterpark is our signature 12-level treehouse waterfort. The waterfort is an interactive water experience for the entire family that features over 60 water effects, including spray guns, fountains, valves and hoses, has cargo netting and suspension bridges and is capped by an oversized bucket that dumps between 700 and 1,000 gallons of water every five minutes. Our Blue Harbor Resort has a 43,000 square-foot Breaker Bay waterpark including our 12-level Lighthouse Pier waterfort featuring a 1,000-gallon tipping ship.

Our waterparks also feature high-speed body slides and inner tube waterslides that wind in and out of the building into a splash-down pool, smaller slides for younger children, zero-depth water activity pools with geysers for young children, a water curtain, fountains and tumble buckets, a lazy river, additional activity pools for basketball, open swimming and other water activities and two large free-form hot tubs, one of which is for adults only. Each waterpark is constructed with a special nonslip floor surface for maximum traction and has ample deck space and good sight lines to enhance parental oversight.

On average, approximately one to two million gallons of water is cycled through each of our waterparks every hour as part of our water filtration procedures. Our primary operating equipment includes water pumps, tanks and filters, located in separate spaces to allow for quick repairs or replacement. Computerized water and air treatment systems and highly trained technicians monitor the water and air quality of our waterparks in order to promote a clean and safe environment. We seek to minimize the use of chlorine. Most of the water purification is performed by one or more non-chlorinated water treatment systems, which ensures the highest water quality and a substantial reduction in the typical chlorine odor found in indoor pools. In addition, the water within each area circulates at least every hour to maximize hygiene. Each waterpark area has its own water system so that a problem with any one area can be quickly contained and does not affect the operations of the rest of the waterpark.

We expect recurring annual capital expenditures for each resort that we own to be approximately 3-4% of the resort's revenues, including the repair and maintenance of our waterpark equipment. As much of the equipment used in our waterparks is designed for outdoor application and capable of withstanding intense physical use and the elements

year-round, wear and tear is minimal. We believe our equipment has a long useful life. In addition, our water purification system minimizes airborne chemicals, and their potentially corrosive effects on materials and equipment, and is designed to help extend the life of our equipment.

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The safety of our guests is a primary focus in our waterparks. Our lifeguards receive one of the highest levels of training and certification in the industry, provided by Jeff Ellis & Associates, Inc. (Ellis & Associates), an international aquatic safety consulting company. Ellis & Associates conducts quarterly unannounced safety inspections at each of our resorts to ensure that proper safety measures and procedures are maintained. All of our on-duty lifeguards perform daily training exercises under the supervision of a certified instructor. We also encourage our lifeguards to obtain EMT certification, and we reimburse them for the costs of the training.

Our indoor waterparks are generally open from 8:30 a.m. until 10:00 p.m. seven days a week and admission is generally only available to resort guests. Our general guests-only policy, which is in effect at all of our resorts other than our Sheboygan resort, allows our guests to avoid the long lines and other inconveniences of daily admission-based waterparks.

Amenities. Each of our resorts feature a combination of the following amenities. Some of the amenities described below have different names at certain of our Great Wolf Lodge resorts. Our Blue Harbor Resort amenities have similar appropriate nautical-themed names.

Themed Restaurants. Our resorts feature one or more full-service, themed restaurants and a themed bar and grille that serves alcoholic beverages and sandwiches. Our themed restaurants include the Gitchigoomie Grill™, with a life-sized sea plane suspended over the dining area, Lumber Jack's Cook Shanty™, the Loose Moose Bar & Grill™, and the Camp Critter Bar & Grille™, which features a two-story realistic tree with a canopy of leaves and canvas-topped booths with hanging lanterns, giving guests the impression that they are dining in a Northwoods forest campsite. Our Blue Harbor Resort features our On the Rocks Bar & Grille and Rusty Anchor™ Buffet.

Ice Cream Shop and Confectionery. Each of our Great Wolf Lodge resorts has a Bear Claw Café or Bear Paw Sweets & Eats ice cream shop and confectionery that provides sandwiches, Starbucks® coffee, pastries, ice cream, candies, home-made fudge and other snacks that families can share together. Our Blue Harbor Resort has a Sweetshop Landing confectionery.

Snack Bar. Each of our waterparks has a snack bar that offers a variety of sandwiches, pizzas and similar foods with ample seating so that our guests do not have to leave the warmth and comfort of the waterpark.

Gift Shop. Each of our resorts has a Buckhorn Exchange™ or Precious Cargo gift shop that provides unique themed gifts, including Great Wolf Lodge logo merchandise, souvenirs, collectibles and stuffed animals. The gift shop also offers resort toys, swimwear and personal necessities. Our resorts also have a Bear Essentials™ or Washed Ashore gift shop located in the waterpark.

Full-Service Spa. Each of our resorts, with the exception of our Sandusky resort, has an Elements™ Spa and Salon that provides a relaxing get-a-way with a full complement of massages, facials, manicures, pedicures and other spa treatments and a wide selection of Aveda® products. Each of our spas also includes our Scoops® Kid Spa. The furnishings for the kid-friendly spa have the look of a modern ice cream parlor, with chocolate-colored walls, retro swivel stools and a pedicure sofa that looks like an oversized ice cream sundae. While enjoying their treatments, kids can listen to music with a provided CD player and speakers or with their own digital music player.

Game Arcade. Our Youkon Jack's Game Parlour™ or Northern Lights Arcade™ range in size from approximately 3,900 to 7,000 square feet, generally feature over 70 games and are divided into distinct areas with video and skill games that appeal to children of different ages. Tickets won from the skill games may be exchanged for a wide selection of merchandise that appeals to our younger guests.

Cub Club. Our Cub Club™ rooms are professionally staffed children's activity rooms with programmed activities, including arts and crafts, games and nature hikes. Cub Club is also a membership program for our younger guests. Cub Club membership is open to all children who have stayed at one of our resorts and includes a periodic newsletter, exclusive offers, rewards for each stay and a free meal and dessert when members visit during their birthday month. We currently have approximately 55,000

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Cub Club members. Our Blue Harbor Resort features a Crew Club™ program and activities that are similar to our Cub Club.

Animated Clock Tower. Each of our Great Wolf Lodge resorts has a two-story animated Clock Tower located in the resort's main atrium lobby. The Clock Tower provides daily theatrical entertainment through talking and singing trees, animals and Northwoods figures. Our Blue Harbor Resort features a 2,000-gallon water fountain featuring a hand-blown glass sculpture and a music and light show located in its main atrium lobby.

Outdoor Water Amenities. Outdoor water amenities complement our indoor waterpark facilities and allow our guests to take advantage of favorable weather conditions. Our outdoor water amenities include activity pools and a large deck or patio area and are generally open from May until September, longer if the weather is favorable. Our Wisconsin Dells and Grapevine resorts also have outdoor waterslides.

Fitness Room. Our fitness rooms contain aerobic exercise equipment, weight-lifting machines, and numerous televisions for active viewing.

Meeting Space. Our resorts offer meeting space ranging from approximately 3,000 to over 7,000 square feet that are available for guest meetings, including a 99-seat, state-of-the-art, symposium-style room at our Traverse City and Niagara resorts.

Conference Facility. Many of our resorts feature conference facility space. Our Traverse City, Sheboygan, Williamsburg, Mason, Grapevine and Grand Mound resorts feature conference facilities that range in size from 10,000 – 40,000 square feet. Each of these conference facilities also feature some if not all, of the following additional aspects to their conference facilities: Grand Ballroom, flexible meeting spaces, executive boardroom, audio visual systems, and multiple pre-function concourses including an outdoor patio.

Wiley's Woods. Wiley's Woods is a four-story, approximately 16,000 square-foot structure located at our Wisconsin Dells resort. Children ages three and older can navigate through slides, bridges, nets and mazes. Admission to Wiley's Woods is free for all resort guests and is open to the public for a fee.

MagiQuest. Seven of our resorts feature a MagiQuest® attraction. MagiQuest is an interactive, live-action, fantasy adventure game that guests can play throughout the resort.

Minigolf. Five of our resorts feature a custom-designed, outdoor 18-hole miniature golf course.

gr8_space. Four of our resorts feature an approximately 1,000 square foot interactive family tech center. gr8_space features multiple computer stations offering Internet access, docking stations for digital music players, as well as multiple gaming stations. gr8_space also features family events, like rock star karaoke and family challenge games. In the evening, gr8_space features dedicated teen time and activities for fun on their terms.

Operating Properties

We currently operate 11 resorts, located in Wisconsin Dells, Wisconsin; Sandusky, Ohio; Traverse City, Michigan; Kansas City, Kansas; Williamsburg, Virginia; Pocono Mountains, Pennsylvania; Niagara Falls, Ontario; Mason, Ohio; Grapevine, Texas; Grand Mound, Washington; and Sheboygan, Wisconsin.

Great Wolf Lodge – Wisconsin Dells, Wisconsin

Our Great Wolf Lodge, located on 16 acres in Wisconsin Dells, Wisconsin, was originally constructed in 1997 and acquired by our predecessor company in 1999. In October 2005, we sold this resort to our joint venture with CNL Lifestyle Properties, Inc. We have a 30.32% interest in that joint venture.

Wisconsin Dells is a renowned family vacation destination that features a number of entertainment options, including amusement parks, museums, live entertainment and other indoor waterparks. According to the 2009 Travel & Tourism Market Research Handbook, the Wisconsin Dells area attracts over 2.9 million

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visitors each year. Wisconsin Dells is within a one-hour drive from Madison, Wisconsin; a two-hour drive from Milwaukee, Wisconsin; a three-hour drive from Chicago, Illinois; a three and one-half-hour drive from Minneapolis/St. Paul, Minnesota; and a five-hour drive from Des Moines, Iowa. According to Applied Geographic Solutions, Inc., there are approximately 16.4 million people who live within 180 miles of the resort.

Great Wolf Lodge of Wisconsin Dells has 308 guest suites, with an additional 77 individually owned, one to four bedroom condominium units located adjacent to the resort, on a six-acre land parcel, and an approximately 76,000 square-foot indoor waterpark that includes our signature treehouse waterfort. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, Wiley's Woods, an outdoor recreation area and meeting rooms. The resort also includes non revenue-generating amenities, such as an animated two-story Clock Tower and fitness center.

We currently manage, on behalf of the CNL joint venture, the rental of all of the condominium units at this resort. The CNL joint venture receives a rental management fee of approximately 42% of gross revenue, after deduction of certain expenses. In addition, the CNL joint venture receives reimbursement of certain waterpark and other expenses from the condominium association.

Great Wolf Lodge Sandusky, Ohio

In March 2001, we opened our Great Wolf Lodge in Sandusky, Ohio. In October 2005, we sold this resort to our joint venture with CNL Lifestyle Properties, Inc. We have a 30.32% interest in that joint venture.

Sandusky is a family destination near Cleveland, Ohio, that is well known for its amusement parks. According to the Sandusky/FIB Erie County Visitors and Convention Bureau, Sandusky attracts approximately 9 million visitors each year. Sandusky is within a one-hour drive from Cleveland and Toledo, Ohio; a two-hour drive from Detroit, Michigan; a two and one-half-hour drive from Columbus, Ohio; and a three-hour drive from Pittsburgh, Pennsylvania. According to Applied Geographic Solutions, Inc., there are approximately 22.9 million people who live within 180 miles of the resort.

Great Wolf Lodge of Sandusky is located on approximately 15 acres and has 271 guest suites and an approximately 34,000 square-foot indoor waterpark that includes our signature treehouse waterfort, tube slides, body slides, hot tubs and a lazy river. The resort offers a number of revenue-enhancing amenities, including our themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, game arcade, gift shops, an outdoor recreation area and meeting rooms. The resort also includes non revenue-generating amenities such as our animated two-story Clock Tower and fitness center.

Great Wolf Lodge Traverse City, Michigan

In March 2003, we opened our Great Wolf Lodge in Traverse City, Michigan. Traverse City is a traditional family vacation destination with skiing and lake activities. According to the Traverse City Convention and Visitors Bureau, Traverse City attracts approximately 2 million visitors each year. Traverse City is within a two-hour drive from Grand Rapids, Michigan; a three-hour drive from the Sault St. Marie, Michigan; and a four-hour drive from Detroit and Ann Arbor, Michigan, as well as Windsor, Ontario. According to Applied Geographic Solutions, Inc., there are approximately 7.1 million people who live within 180 miles of the resort.

Great Wolf Lodge of Traverse City is located on approximately 48 acres and has 280 guest suites and an approximately 40,000 square-foot indoor waterpark that includes our signature treehouse waterfort. It also includes a conference center that is 10,000 square-feet. The resort offers a number of revenue-enhancing amenities, including our

themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest, minigolf, an outdoor recreation area and approximately 7,000 square feet of meeting space. The resort also includes non revenue-generating amenities such as our animated two-story Clock Tower and fitness center.

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Great Wolf Lodge Kansas City, Kansas

In May 2003, we opened our Great Wolf Lodge in Kansas City, Kansas, as part of the Village West tourism district that includes a Cabela's superstore, Nebraska Furniture Mart and the Kansas NASCAR Speedway. According to the 2009 Travel & Tourism Market Research Handbook, Kansas City attracts approximately 8 million visitors each year. Kansas City is within a one-hour drive from Topeka, Kansas; a three-hour drive from Wichita, Kansas, Des Moines, Iowa and Omaha, Nebraska; and a four-hour drive from St. Louis, Missouri. According to Applied Geographic Solutions, Inc., there are approximately 6.8 million people who live within 180 miles of the resort.

Great Wolf Lodge of Kansas City is located on approximately 17 acres and has 281 guest suites and an approximately 40,000 square-foot indoor waterpark that includes our signature treehouse waterfort. The resort offers a number of revenue-enhancing amenities, including our themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest, minigolf, an outdoor recreation area and meeting rooms. The resort also includes non revenue-generating amenities such as our animated two-story Clock Tower and fitness center.

Blue Harbor Resort Sheboygan, Wisconsin

In June 2004, we opened our Blue Harbor Resort on an approximately 12-acre property on the shores of Lake Michigan in Sheboygan, Wisconsin. Sheboygan is a family vacation destination featuring lake activities and golf. Due to the lakefront location, we designed this resort with a nautical theme rather than our typical Northwoods lodge theme. This resort is styled as a grand beach resort and decorated in a manner consistent with that theme, including a nautical themed lobby and specialty rooms such as the KidAquarium Suite with bunk beds surrounded by walls of deep blue sea and schools of fish and the Boathouse Suite with rowboat bunk beds. Sheboygan is within a one-hour drive from Milwaukee and Green Bay, Wisconsin; a two-hour drive from Madison, Wisconsin; a three-hour drive from Chicago, Illinois; and a four-hour drive from Dubuque, Iowa. According to Applied Geographic Solutions, Inc., there are approximately 18.6 million people who live within 180 miles of the resort.

Blue Harbor Resort has 182 guest suites, with an additional 64 individually-owned, two and four bedroom condominium units located adjacent to the resort, and an approximately 43,000 square-foot Breaker Bay indoor waterpark with a 12-level Lighthouse Pier waterfort. The resort offers a number of revenue-enhancing amenities, including our nautical-themed restaurants and snack bar, confectionery and ice cream shop, Crew Club, full-service spa, kids spa, game arcade, gift shops and an outdoor recreation area. This resort also has an approximately 21,000 square-foot attached conference facility that seats 1,000 people. The resort offers non revenue-generating amenities such as our 2,000 gallon hand-blown glass water fountain featuring a music and light show and fitness center.

We currently manage the rental of all of the condominium units at this resort. We receive a rental management fee of approximately 38% of gross revenue. In addition, we receive reimbursement of certain waterpark expenses through the condominium association.

Great Wolf Lodge Williamsburg, Virginia

In March 2005, we opened our Great Wolf Lodge in Williamsburg, Virginia, on an 83-acre site. Williamsburg is a popular family vacation destination with amusement parks, waterparks and other entertainment attractions. According to the 2009 Travel & Tourism Market Research Handbook, the Williamsburg area attracts 4 million visitors each year. Williamsburg is a one-hour drive from Richmond, Virginia; a two and one-half-hour drive from Washington, D.C.; a three-hour drive from Baltimore, Maryland; a three and one-half-hour drive from Raleigh, North Carolina; a four and one-half-hour drive from Wilmington, Delaware; and a five-hour drive from Philadelphia, Pennsylvania. According to

Applied Geographic Solutions, Inc., there are approximately 17.4 million people who live within 180 miles of the resort.

The resort occupies approximately 36 acres of the site. We may sell or lease portion of the excess land as out-lots and retain the remaining acreage to support future expansion of the resort.

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Great Wolf Lodge of Williamsburg has 405 guest suites and an approximately 67,000 square-foot indoor waterpark that includes our signature treehouse waterfort. It also includes a conference center that is 10,000 square-feet. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest, minigolf, gr8 space, an outdoor recreation area and approximately 11,000 square feet of meeting rooms. The resort offers non revenue-generating amenities such as a two-story animated Clock Tower and fitness center.

Great Wolf Lodge Pocono Mountains

In October 2005, we opened our Great Wolf Lodge in the Pocono Mountains on a 95-acre site near Stroudsburg, Pennsylvania. The Pocono Mountains area is a popular family vacation destination featuring family-oriented attractions and recreational activities. According to the 2009 Travel & Tourism Market Research Handbook, the Pocono Mountains region attracts approximately 8 million visitors each year. The resort is less than a one-hour drive from Scranton, Pennsylvania; a two-hour drive from Manhattan, New York and Philadelphia, Pennsylvania; a two and one-half-hour drive from Bridgeport, Connecticut; a three hour drive from Baltimore, Maryland; and a five-hour drive from Pittsburgh, Pennsylvania. According to Applied Geographic Solutions, Inc., there are approximately 45.2 million people who live within 180 miles of the resort.

Our Great Wolf Lodge of the Pocono Mountains has 401 guest suites and an approximately 80,000 square-foot indoor waterpark that includes our signature treehouse waterfort. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack shops, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest, gr8 space, an outdoor recreation area and approximately 5,800 square feet of meeting rooms. The resort also includes non revenue-generating amenities such as a two-story animated Clock Tower and fitness center.

Great Wolf Lodge Niagara Falls, Ontario

In January 2004, we entered into a license agreement with Ripley s that authorized Ripley s to develop and operate a Great Wolf Lodge resort in Niagara Falls, Ontario. In addition, the agreement allows Ripley s to use certain licensed trademarks, such as Cub Club, KidCabin, and Great Wolf Lodge. The term of the license agreement is ten years, with the possibility of up to four successive five-year renewals. Under the license agreement, Ripley s is required to pay a monthly license fee and a brand marketing fee that we are obligated to contribute to a marketing program. We may terminate the license agreement at any time, upon notice, if Ripley s fails to meet its material obligations under the agreement. These obligations require Ripley s to meet payment obligations in a timely manner, maintain and operate the resort in a manner consistent with our operating standards and obtain our approval prior to the use of any of our licensed trademarks. In addition, these material obligations restrict Ripley s to selling only products, goods and services that we approve and from developing or managing a hotel with an indoor waterpark within the United States until, at the earliest, January 2016.

In April 2006, we opened the Great Wolf Lodge in Niagara Falls, Ontario, Canada. Niagara Falls is a popular family vacation destination. According to the 2009 Travel & Tourism Market Research Handbook, Niagara Falls attracts nearly 12 million visitors each year. Niagara Falls is less than a one hour drive from Buffalo, New York; a one and one-half-hour drive from Toronto, Ontario; a one and three-quarter-hour drive from Kitchener, Ontario; a two and one-half-hour drive from London, Ontario; and a four and one-quarter-hour drive from Windsor, Ontario. According to Applied Geographic Solutions, Inc., there are approximately 8 million people in the United States and 9.6 million people in Canada, who live within 180 miles of the resort.

Great Wolf Lodge of Niagara Falls has 406 guest suites with an approximately 82,000 square-foot indoor waterpark. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack bars,

confectionery and ice cream shop, Cub Club, full-service spa, game arcade, gift shops, minigolf, an

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outdoor recreation area and meeting space. The resort also includes non revenue-generating amenities such as a two-story animated Clock Tower and fitness center.

Great Wolf Lodge Mason, Ohio

In December 2006, we opened our Great Wolf Lodge in Mason, Ohio, on a 39-acre land parcel adjacent to Kings Island theme park. Mason is a popular family destination featuring family-oriented attractions and recreational activities. According to the 2009 Travel & Tourism Market Research Handbook, the Mason/Cincinnati metro areas attract 5 million visitors per year. The resort is located less than a one-hour drive from Cincinnati and Dayton, Ohio; a one and one-half hour drive from Columbus, Ohio; and a two-hour drive from Louisville, Kentucky, Indianapolis, Indiana and Lexington, Kentucky. According to Applied Geographic Solutions, Inc., there are approximately 16.6 million people who live within 180 miles of the resort.

Our Great Wolf Lodge of Mason, Ohio, has 401 guest suites and an approximately 84,000 square-foot indoor waterpark. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest and an outdoor recreation area. The resort also includes non revenue-generating amenities such as a two-story animated Clock Tower and fitness center. The resort also includes a state-of-the-art 40,000 square-foot conference center, including an expansive Grand Ballroom, flexible meeting spaces, an executive boardroom, audio and visual systems, and multiple pre-function concourses including an outdoor patio.

Great Wolf Lodge Grapevine, Texas

In December 2007, we opened our Great Wolf Lodge in Grapevine, Texas, on a 51-acre site. Grapevine is a popular family destination featuring family-oriented attractions and recreational activities. The resort is less than a one-hour drive from both Dallas and Fort Worth, Texas. The Dallas and Fort Worth region is the 6th largest market area in the United States according to Nielsen Media Research Inc., and the resort has a higher population within a 60-mile radius than any other Great Wolf Lodge resort. The resort is also a three-hour drive from Oklahoma City, Oklahoma; a three and one-half-hour drive from Shreveport, Louisiana and Austin, Texas; and a four and one-half-hour drive from Houston and San Antonio, Texas. According to Applied Geographic Solutions, Inc., there are approximately 10.7 million people who live within 180 miles of the resort. The resort occupies approximately 30 acres of this site. We may sell a portion of the excess land as out-lots.

Our Great Wolf Lodge of Grapevine, Texas, has 605 guest suites and an approximately 78,000 square-foot indoor waterpark. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack bars, confectionery and ice cream shop, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest, gr8_space and an outdoor recreation area. The resort also includes non revenue-generating amenities such as a two-story animated Clock Tower and fitness center. In December 2008, we opened the expansion of this resort which includes 27,000 square feet of additional meeting space.

Great Wolf Lodge Grand Mound, Washington

In 2005, we entered into a 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. We operate the resort under the Great Wolf Lodge brand. The Confederated Tribes of the Chehalis Reservation has leased the land needed for the resort to the joint venture on favorable terms. Both parties maintain equity positions in the joint venture. The resort opened in March 2008. The resort is the first family destination vacation resort with an indoor waterpark in the Pacific Northwest. The resort is a less than one-hour drive from Olympia, Washington; an hour and half drive from Seattle, Washington and Portland, Oregon; a three-hour drive from Yakima, Washington; a four-hour

drive from Vancouver, British Columbia; and a five-hour drive from Spokane, Washington. According to Applied Geographic Solutions, Inc., there are approximately 7.8 million people who live within 180 miles of the resort.

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Our Great Wolf Lodge of Chehalis, Washington, has 398 guest suites and an approximately 60,000 square-foot indoor waterpark. The resort offers a number of revenue-enhancing amenities, including themed restaurants and snack bars, confectionery and ice cream shop, a full-service spa, game arcade, gift shops, MagiQuest, minigolf, gr8_space, an outdoor recreation area and an approximately 30,000 square-foot conference center. The resort also includes non revenue-generating amenities such as a two-story animated Clock Tower and fitness center.

Property Under Construction

Great Wolf Lodge Concord, North Carolina

In September 2007, we purchased a 37-acre site in Concord, North Carolina and began construction on a Great Wolf Lodge resort. Concord is a popular family destination featuring family-oriented attractions and recreational activities. The Concord site is located 15 miles from downtown Charlotte at Exit 49 on Interstate 85. This freeway interchange is well known throughout the Carolinas mostly due to its main attraction draws, Lowe's Motor Speedway and the Concord Mills shopping center. The resort is a less than one-hour drive from Charlotte, North Carolina; a one and one-half hour drive from Greensboro/Winston-Salem, North Carolina; a two-hour drive from Columbia, South Carolina; and a two and one-half-hour drive from Raleigh and Asheville, North Carolina. According to Applied Geographic Solutions, Inc., there are approximately 14.7 million people who live within 180 miles of the resort.

Upon completion, Great Wolf Lodge of Concord, North Carolina will have 402 guest suites and approximately 97,000 square feet of indoor entertainment, including an 84,000 square foot indoor waterpark. The resort will offer a number of revenue-enhancing amenities, including themed restaurants and snack bars, confectionery and ice cream shop, full-service spa, game arcade, gift shops, MagiQuest, minigolf, gr8_space, an outdoor recreation area and an approximately 20,000 square-foot conference center. The resort also will include non revenue-generating amenities such as a two-story animated Clock Tower and fitness center. We anticipate that this resort will open in March 2009.

Business and Growth Strategies

Our primary business objective is to increase long-term stockholder value by executing our internal and external growth strategies. Our primary internal growth strategies are to:

Increase Total Resort Revenue. We make efforts to increase total resort revenue by increasing:

Average Room Rate: We attempt to increase our average room rate over time by driving demand for our resorts and focusing on yield management techniques. We strive to increase demand through intelligent sales, marketing and public relations efforts, by increasing our visibility and by enhancing our brand image. We attempt to employ our yield management techniques to project demand in order to effectively direct our sales and marketing efforts and selectively increase room rates. We believe that our focus on optimizing the relationship between room rates and occupancies will allow us to maximize profitability. Our average room rate was approximately \$250 for the year ended December 31, 2008.

Average Occupancy: We seek to maintain high occupancy levels during peak times and also focus on increasing our off-peak occupancies. Our off-peak occupancy levels generally occur in May, September and during the middle of the week. Our occupancy levels are affected by school calendars, with the summer months, weekends, spring break period and other school holidays achieving the highest occupancy levels. We will continue to seek to improve off-peak occupancy levels by holding special events and targeting group sales and conferences. Our average occupancy was approximately 62.9% for the year ended December 31, 2008.

Other Revenue: We provide our guests with a self-contained vacation experience and attempt to capture a significant portion of their spending on food and beverage, entertainment and merchandise. Each of our resorts feature a combination of the following amenities: at least one themed restaurant, an ice cream shop and confectionery, snack shop, an full-service adult spa, kids spa, gift shop, game

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arcade, MagiQuest, minigolf and gr8 space. Our average non-room revenue, including the revenue from these amenities, was approximately \$134 per occupied room night for the year ended December 31, 2008. By providing these additional revenue-generating amenities, we seek to maximize the amount of time and money spent on-site by our guests. We have also entered into a number of co-marketing agreements with strategic partners and expect to enter into additional co-marketing agreements in the future in order to increase other revenue.

Leverage Our Economies of Scale. We attempt to continue to take advantage of the following economies of scale:

Increased Purchasing Power: We strive to continue to capitalize on our increasing purchasing power with respect to operating supplies, food and beverage, insurance and employee benefits. As the number of resorts we own and operate increases, we expect to be able to leverage our increased buying volume and power to obtain more advantageous and predictable pricing on commodity goods and services. We have entered into an arrangement with a nationally recognized hospitality procurement company to further leverage our buying power. In addition, we intend to continue to make efforts to manage increases and fluctuations in the cost of electricity, water and natural gas for our resorts by entering into volume-based contracts where we are able to do so.

Centralized Services: By centralizing certain of our services, we focus on decreasing our per-unit costs, increasing our control over those services and being in a position to deliver a greater quality of service to our customers. For example, our central reservations call center operates every day of the year, has approximately 135 full- and part-time employees and accepts reservations for our resorts. The call center also has the capacity to efficiently handle high call volumes and should require only limited additional incremental costs over the next several years as we increase our portfolio of resorts. In addition, as we have grown we have focused on increasing the functionality of our web-based online reservations system. We expect this centralized function to allow us to further efficiently handle an increasing volume of guest reservations with limited incremental costs.

Build Upon Our Existing Brand Awareness and Loyalty. Our Great Wolf Lodge brand is symbolized by our distinctive and easily identifiable theming, from our signature treehouse waterfort, to our mascots and recognizable logos and merchandise. We believe we have fostered strong customer and brand loyalty, which is evidenced by our relatively high levels of repeat and referral guests. We will continue to focus on ensuring that each of our guests associates the Great Wolf Lodge brand with a memorable and consistent family vacation experience.

Our primary external growth strategies are to:

Capitalize on First-Mover Advantage. We strive to be the first to develop and operate family entertainment resorts featuring indoor waterparks in our selected target markets. We seek to continue to leverage our development expertise, existing platform and model and our access to capital to take advantage of the significant barriers to entry associated with the development of large family entertainment resorts with indoor waterparks like our Great Wolf Lodge resorts. We seek to set the standard for quality, build on visible sites and capitalize on the opportunity to be located near other popular local attractions that draw our target customers. We believe that the combination of our first mover advantage and the significant barriers to entry in our target markets provide us with a competitive advantage.

Focus on Development and Strategic Growth Opportunities. Family entertainment resorts featuring indoor waterparks are a relatively new concept and a growing segment of the resort and entertainment industries. We

intend to focus on this growth opportunity by:

Building in Target Markets: We intend to develop additional resorts, primarily as licensed or minority-owned resorts, in major domestic markets and/or international markets.

Selective Sales of Ownership Interests/Recycling of Capital: We will selectively consider opportunities to sell partial or whole interests in one or more of our owned and operated properties, as we did

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in our CNL joint venture. We intend to continue to manage all of our Great Wolf Lodge branded resorts, and we will consider transactions that allow us to maintain our management/licensing position at a resort while realizing value created through our development expertise. In those situations, we expect then to recycle capital generated by such transactions for investment in future growth opportunities.

Licensing Our Resort Concept Internationally: We plan to selectively seek licensing and management opportunities internationally. Similar to our arrangement with Ripley's in Niagara Falls, Ontario, we seek to enter into license and management agreements with other reputable companies that have local market knowledge in order to increase revenues and expand the reach of our Great Wolf Lodge brand.

Forming Strategic Partnerships: We will consider strategic partnerships on a selective basis. For example, we have entered into resort ownership joint ventures with CNL Lifestyle Properties and The Confederated Tribes of the Chehalis Reservation and we are actively exploring other possible joint venture arrangements for future properties.

Expanding and Enhancing Existing Resorts: We seek to continue to focus on growth opportunities at our existing resorts by adding revenue-enhancing features that drive ancillary vacation spending at certain of our resorts and meet our target returns, including non-water based attractions. We also intend to continue to evaluate incremental revenue-generating opportunities, such as expanding the number of rooms and adding condominium units at certain of our resorts. In addition, we will consider adding conference centers at existing resorts to capture convention and other business travel revenue.

Continue to Innovate. We intend to leverage our in-house expertise, in conjunction with the knowledge and experience of our third-party suppliers and designers, to develop and implement the latest innovations in family entertainment activities and amenities, including waterpark attractions. We have received numerous industry awards for our guests' experiences, our operations, innovative development, sales and marketing initiatives and materials, and employee retention.

Our Competitive Strengths

We are the market leader for family entertainment resorts that feature indoor waterparks and other family-oriented amenities in North America. Our competitive strengths include:

Unforgettable Family Resort Experience. Each of our resorts provides a welcome opportunity for families to spend quality time together, relax and reconnect. In addition to our indoor waterparks, our resorts provide other activities and amenities that the entire family can enjoy together. Our family amenities and activities include themed restaurants, a game arcade, ice cream shop and confectionery, gift shop, snack shop, animated Clock Tower and fireside bedtime stories. We also have amenities and activities tailored to each member of the family, including our full-service Aveda spa, Scoops Kids Spa, Cub Club, MagiQuest, minigolf, gr8 space and fitness room. Our resorts also offer special events, including seasonal and holiday activities, wild animal and nature educational programs and other special events. We believe that our focus on delivering an unforgettable family resort experience appeals to our target customers and results in repeat visits and referrals. For the year ended December 31, 2008, we generated approximately 56% of our rooms revenue from repeat visitors and referral guests.

Value, Comfort and Convenience. Guest rooms at each of our resorts are spacious and comfortable suites that generally range in size from approximately 385 square feet to 1,970 square feet and include a wet bar, microwave, refrigerator and dining and sitting area. Many of the suites have specific themes that are geared toward enhancing our younger guests' experience, including our KidCabin and Wolf Den Suites, which have

a partitioned room with bunk beds designed as log cabins and Northwoods forest dens, respectively. All of our resorts are within a convenient driving distance of our large target customer bases. Because our indoor waterparks and our other amenities

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generally are not impacted by weather conditions, we offer our guests a reliable experience. On average, we believe that a two-night stay at our resorts for a family of four, is an affordable family vacation option.

Favorable Market Trends. We believe recent vacation trends favor our Great Wolf Lodge concept as the number of families choosing to take shorter, more frequent vacations that they can drive to have increased in recent years. We believe that these trends will continue and that we are well positioned to take advantage of them. We believe our resorts are less affected by changes in economic cycles, as drive-to destinations are generally less expensive and more convenient than destinations that require air travel.

Market Presence and Barriers to Entry. We are the largest owner and operator of family entertainment resorts with indoor waterparks in North America based on the number of resorts in operation. We believe this market presence gives us a significant competitive advantage in attracting guests and efficiently developing additional resorts. In addition, we believe the significant barriers to entry present in our industry segment; including operational complexity, substantial capital requirements, availability of suitable sites in desirable markets and a difficult, multi-year permitting process, discourage other companies in the lodging and entertainment industries from developing similar family entertainment resorts. A new Great Wolf Lodge resort typically costs in excess of \$120,000 and takes from one to three years to develop, which includes market selection, site selection and permitting, an additional 18 months or more to build.

Focus on Safety. We invest heavily in safety measures in the design, construction and operation of our resorts. For example, we specifically design our waterparks with attention to sightlines and safety precautions and use one of the most respected training methods in the water safety industry to train each of our lifeguards. We design and construct our indoor waterparks with state-of-the-art air quality and water treatment systems. We also maintain and periodically upgrade our facilities to ensure that we provide our guests with best-in-class safety measures and systems.

Experienced Management Team and Committed and Motivated Staff. Our senior management team has significant experience in the hospitality, family entertainment and real estate development industries and has significant expertise in operating complex, themed, family entertainment resorts featuring indoor waterparks. In addition, we have a team of skilled, loyal and committed employees at each of our resorts. We offer our resort employees a number of benefits, including what we believe is a pleasant and rewarding work environment, career-oriented training, the ability to obtain consistent year-round work, which is uncommon in the resort industry, and career growth opportunities. As a result, we believe our employees are committed to delivering a superb customer experience and helping to assure that our guests fully enjoy their family vacation.

Industry Overview

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 since 1987. In an effort to boost occupancy and daily rates, as well as capture off-season demand, hotel operators in the Wisconsin Dells market began expanding indoor pools and adding waterslides and other water-based attractions to existing hotels and resorts. The success of these efforts prompted several local operators to build new, larger destination resorts based primarily on this concept, including the Wilderness Hotel & Golf Resort, Treasure Island, Raintree Resort, Kalahari and the Great Wolf Lodge (formerly known as the Black Wolf Lodge), which our predecessor company purchased in 1999.

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. No operator

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or developer other than Great Wolf Resorts has established a national portfolio of destination family entertainment resorts featuring indoor waterparks.

No standard industry definition for a family entertainment resort featuring an indoor waterpark has developed. A recent Hotel & Leisure Advisors, LLC (H&LA) survey indicates that there are 132 open indoor waterpark resort properties in the United States and Canada. Of the total, 46 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 46 properties, 11 are Great Wolf Resorts properties. The same survey indicated 13 openings of indoor waterpark resorts projected for 2009. The 2009 opening include only two indoor waterpark destination resorts; one of those two is our property in Concord, North Carolina. Most of our resorts are located in well-established, traditional drive-to family vacation destinations, which allow us to leverage the popularity of these destinations by offering a complementary entertainment option to existing venues and a high-quality family resort alternative. In addition, many of these destinations offer beaches, theme parks, waterparks, amusement parks and many other forms of outdoor activities that are only available on a seasonal basis. Within our enclosed resort environment, our guests can enjoy a total resort experience year round, regardless of weather conditions.

Resort Operations

Each of our resorts employs a general manager who is responsible for the operations of the particular resort and who typically has extensive experience in the hospitality or family entertainment industry. Our general managers on average oversee a staff of 400 or more resort employees and are assisted by a management team, including directors for each of aquatics, finance, food and beverage, front office, housekeeping, human resources, maintenance, retail and sales and marketing. A corporate-level liaison for most departments ensures consistency throughout our resorts while allowing a particular resort to tailor its operations to best meet the needs of its guests.

Prior to assuming responsibility for a resort, general managers and assistant general managers undergo a proprietary management training program designed to familiarize each trainee with various facets of our management, operations and development programs. The program also emphasizes our guest service policies and provides hands-on operating experience at the resort level. Our management training program is intended to train assistant general managers to become future general managers.

We strive to provide our guests with a fun and convenient experience in a warm and family-friendly environment from the first day a new resort opens. To achieve this, a team of experienced management members from our existing resorts, along with corporate liaisons, begins training personnel at our new resorts approximately one month prior to a resort's opening and remains on site at the new resort for up to a month after opening. We believe that this process ensures that the opening of a new resort is efficient and that our culture of high quality and friendly customer service is carried over to our new resorts, including our guests' interactions with our front desk, housekeeping, waterpark, restaurant and other staff members. In addition, we train our maintenance personnel to minimize any operational problems that occur during the opening of a new resort, including the operation of our waterparks. We believe that these efforts help to minimize any problems associated with opening a new resort and give our first guests a favorable, memorable experience that will build brand loyalty.

Training and Development

We believe that our ability to provide a friendly family atmosphere where families can relax, play and reconnect begins with our people and their ability to deliver quality customer service. We seek to recruit, train and retain employees who will make sure that our guests enjoy their stay. We seek to promote from within our company. Each new resort employee undergoes an extensive orientation program and is paired with a more veteran employee for an initial period so that the new employee can learn more about our resorts, our culture and how we strive to provide the

best possible customer service. Our employees are committed to our success and focused on ensuring a memorable experience for each of our guests. We believe that our high level of customer service sets us apart and promotes valuable referrals and repeat visits.

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Sales and Marketing

We place a significant emphasis on the sales and marketing of our family-focused resorts. We work together with a third-party consulting firm to analyze the demographics of our markets and to identify potential guests for targeted marketing, both within our primary market areas and beyond those areas to attract occasional or seasonal travelers. We market to these potential customers through a combination of television, radio, newspaper, electronic mail and direct mail advertising, including advertising through local chambers of commerce and convention and visitors bureaus. We also rely upon repeat guests and guest referrals, as well as brand recognition and the visibility of the resorts themselves, which are typically located along major highways in high traffic areas. In addition, our Web site offers detailed information about our resorts, including virtual tours and room layouts.

For new resorts, our marketing efforts generally begin before construction commences. We establish sales offices to generate advance bookings. Reservations may be made at our resorts, through our Web site or through our central reservations call center. Our call center and highly trained staff allow us to offer consistent specials throughout our resorts, better track room occupancy levels and room rates and handle the high volume of calls that are usually associated with the opening of a resort.

We maintain an in-house sales force and graphic arts department. Our experienced staff develops products and promotions for use in merchandising and marketing promotions. We also engage in cross-marketing, promotions and co-marketing arrangements with major vendors. We have received numerous awards for our general advertising, Web site, print media, radio commercials and sales presentations.

We have developed Cub Club, a program for our younger guests. Membership is available to all children who have stayed at one of our resorts. The benefits of the program include coupons and other incentives, a periodic newsletter, access to the Cub Club activity rooms at each of our resorts and special offers to children who visit during their birthday month. Our Blue Harbor Resort features a Crew Club program for children, similar to the Great Wolf Lodge resorts' Cub Club.

Maintenance and Inspections

Each of our resorts has an experienced aquatics director who is extensively trained and experienced in water quality and safety. On-site maintenance personnel frequently inspect our waterparks. These inspections include safety checks of the equipment in the waterpark, as well as analyses of water and air quality. Our water quality levels are regularly monitored and tested by computers and by a full-time aquatics maintenance engineer, who works with an additional assistant during our busiest months. Our air quality system is designed to minimize humidity and moisture build-up, which materially reduces maintenance costs. Furthermore, we use Ellis & Associates as water safety consultants at our resorts in order to train lifeguards and audit safety procedures.

Our senior management and the individual resort personnel evaluate the risk aspects of each resort's operation, including potential risks to the public and employees and staff. Each resort has full-time maintenance employees on staff who ensure building quality and full-time aquatics maintenance employees who ensure the ride safety and air and water quality inside the resort's indoor waterpark. We use a state of the art filtration system and ozonators to balance the water and air quality within the waterpark in order to accommodate fluctuating quantities of visitors.

Development Criteria

We choose sites for the development of new resorts by considering a number of factors, including:

Large target customer base. We select development sites that generally have a minimum of five million target customers within a convenient driving distance. Because we offer an affordable vacation experience, we appeal to families in a variety of income ranges.

Recognized tourist destination. We generally focus on drive-to destinations that attract a large number of tourists, including both emerging and traditional family vacation markets. We believe we can charge

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premium rates in these markets due to the high quality of our resorts and our family-oriented amenities and activities. In addition, the indoor nature of many of our amenities and activities allows us to reduce the impact of seasonality that negatively affects other attractions in these areas. These areas also often have active and effective local visitors and convention bureaus that complement our marketing and advertising efforts at little or no cost to us.

Highly visible and large sites. We generally develop resorts in highly visible locations along major roadways. Visibility from highways enhances easy drive-to access, provides marketing benefits due to high volumes of traffic and often produces synergies from adjacent land uses or complementary developments. We generally choose sites that have enough acreage to allow for potential expansions and future sales of out-lots.

Based upon these factors, we have identified over 50 domestic markets as potential locations for our resorts.

Once we have identified a market that meets our development criteria, we search for potential sites. Acceptable sites may be difficult to find in some areas. We perform initial analyses of the permitting process and access to utilities before acquiring a sufficient amount of land from one or more landowners. Based upon the target customer base of the market, we develop initial specifications for the resort, such as the number of guest suites and size of the indoor waterpark and other amenities. We also formally begin the potentially lengthy and difficult process of obtaining the necessary approvals and permits from the appropriate local governmental bodies, including the necessary water rights and environmental permits. Once the permitting process is complete, we secure financing for the project and begin construction on the resort. This overall development process generally takes from two to four years or longer from identification of a market to completion of a resort.

Competition

Our resorts compete with other forms of family vacation travel, including theme parks, waterparks, amusement parks and other recreational activities, including other resorts located near these types of attractions. Our business is also subject to factors that affect the recreation and leisure and resort industries generally, such as general economic conditions and changes in consumer spending habits. We believe that the principal competitive factors of a family entertainment resort include location, room rates, name recognition, reputation, the uniqueness and perceived quality of the attractions and amenities, the atmosphere and cleanliness of the attractions and amenities, the quality of the lodging accommodations, the quality of the food and beverage service, convenience, service levels and reservation systems.

A recent Hotel & Leisure Advisors, LLC (H&LA) survey indicates that there are 132 open indoor waterpark resort properties in the United States and Canada. Of the total, 46 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 46 properties, 11 are Great Wolf Resorts properties. The same survey indicated 13 openings of indoor waterpark resorts projected for 2009. The 2009 opening include only two indoor waterpark destination resorts; one of those two is our property in Concord, North Carolina.

As a result of our market presence and our management team's substantial experience, we believe we have an opportunity to capitalize on our first-mover advantage in this industry segment and to achieve significant brand recognition. While we believe that our first-mover advantage is very beneficial to us, it does provide our competitors with an opportunity to monitor our success in our chosen markets. As a result, a competitor may choose not to enter one of our markets based on our performance, or may subsequently develop a resort in our markets that is newer, has additional amenities, is strategically located or offers more and/or larger waterpark attractions than our resorts.

In several of our markets, there are few, if any, other family entertainment resorts featuring indoor waterparks. However, in Wisconsin Dells, Wisconsin, where indoor waterparks were first introduced, there are approximately 16

other resorts and hotels with some type of indoor water-related activity or amenity. As a result, we face significant competition from both lower priced, un-themed, waterparks and larger, more

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expensive waterparks with thrill rides and other attractions in the Wisconsin Dells market. While the Wisconsin Dells market has a significant number of resorts with indoor waterparks, we believe the competitive landscape in that small, regional market is not representative of the competition we may face as we further expand our portfolio of resorts. The vast majority of indoor waterpark resorts in Wisconsin Dells are family-owned or privately operated businesses that have yet to develop additional resorts outside of Wisconsin Dells. In addition, we believe our ability to compete effectively in this highly competitive market will enable us to more effectively compete in other markets where we may not be the only family entertainment resort. In addition to Wisconsin Dells, we face direct competition from other indoor waterpark destination resorts in the Sandusky, Traverse City, Kansas City, Pocono Mountains and Mason areas.

We anticipate that competition within some of our markets will increase in the foreseeable future. We believe that a number of other resort operators are developing or considering the development of family entertainment resorts with indoor waterparks, which will compete with our resorts.

Governmental Regulation

The ownership and management of our resorts, as well as our development and construction of new resorts, subjects us to federal, state and local laws regulating zoning, land development, land use, building design and construction, and other real estate-related laws and regulations. In addition, a number of states regulate the permitting and licensing of resorts, and some of the individual components of our resorts such as our spas, waterparks, and others, by requiring registration, disclosure statements and compliance with specific standards of conduct. Our failure to maintain or acquire the requisite licenses, permits and authorizations required by such laws and regulations, as well as any failure on our part to comply with registration, disclosure and standards of conduct required by such laws and regulations could impact the operation, profitability and success of our current resorts or the development, completion and success of any resorts we may develop in the future. We believe that each of our resorts has the necessary permits and approvals to operate its business and is in material compliance with all applicable registration, disclosure and conduct requirements. We intend to continue to obtain such permits and approvals for any resorts we may develop in the future or additions or renovations to current resorts and to ensure that such resorts and additions or renovations comply with applicable registration, disclosure and conduct requirements.

We are also subject to laws and regulations governing our relationship with employees, including minimum wage requirements, overtime, working conditions and work permit requirements. An increase in the minimum wage rate, employee benefit costs or other costs associated with employees could increase our overall labor costs.

The operation of our waterparks subjects us to state and local regulations governing the quality of the water we use in our waterparks, which may include bacteriological, chemical, physical and radiological standards. In addition to inspections we conduct on our own, state and local authorities may also conduct inspections of our waterparks to determine our compliance with applicable standards. If we are found to be in violation of such regulations we could be subject to various penalties, including, but not limited to, monetary fines and the temporary closure of our waterparks. Changes in state or local regulations could impose more stringent standards with which we would have to comply.

We are subject to both federal and state environmental laws and regulations, including laws and regulations governing the discharge of water from our waterparks. Specifically, under the requirements of the Federal Clean Water Act, we must obtain National Pollutant Discharge Elimination System permits from the Environmental Protection Agency or from the state environmental agency to which the permit program has been delegated for discharges into waterways and comply with the permit terms regarding wastewater quality and discharge limits. Such permits must be renewed from time-to-time, as required by regulation and additional capital expenditures for wastewater treatment systems associated with the renewal of our water discharge permits may be required. Importantly, changes in federal or state legislation or regulations could impose more stringent release standards with which we would have to comply.

Currently, our resort in the Pocono Mountains is our only property subject to such laws and regulations governing the discharge of water and we intend to comply with these laws and regulations as we operate that property.

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As a place of public accommodation, our resorts are subject to the requirements of the Americans with Disabilities Act of 1990, which we refer to as the ADA. As such, our resorts are required to meet certain federal requirements related to access and use by disabled persons. While we believe that our resorts are substantially in compliance with these requirements, we have not conducted an audit or investigation of all of our resorts to determine our compliance. Further, federal legislation or regulations may amend the ADA to impose more stringent requirements with which we would have to comply.

Environmental Matters

Our operations and properties are subject to federal, state and local laws and regulations relating to the protection of the environment, natural resources and worker health and safety, including laws and regulations governing and creating liability relating to the management, storage and disposal of hazardous substances and other regulated materials. Our properties are also subject to various environmental laws and regulations that govern certain aspects of our on-going operations. These laws and regulations control such things as the nature and volume of our wastewater discharges, quality of our water supply and our waste management practices. The costs of complying with these requirements, as they now exist or may be altered in the future, could adversely affect our financial condition and results of operations.

Because we own and operate real property, various federal, state and local laws may impose liability on us for the costs of removing or remediating various hazardous substances, including substances that may be currently unknown to us, that may have been released on or in our property or disposed by us at third-party locations. The principal federal laws relating to environmental contamination and associated liabilities that could affect us are the Resource Conservation and Recovery Act and the Comprehensive Environmental Response, Compensation and Liability Act; state and local governments have also adopted separate but similar environmental laws and regulations that vary from state to state and locality to locality. These laws may impose liability jointly and severally, without regard to fault and whether or not we knew of or caused the release. The presence of hazardous substances on a property or the failure to meet environmental regulatory requirements may materially adversely affect our ability to use or sell the property, or to use the property as collateral for borrowing, and may cause us to incur substantial remediation or compliance costs. In addition, if hazardous substances are located on or released from one of our properties, we could incur substantial liabilities through a private party personal injury claim, a claim by an adjacent property owner for property damage or a claim by a governmental entity for other damages, such as natural resource damages. This liability may be imposed on us under environmental laws or common-law principles.

We obtain environmental assessment reports on the properties we own or operate as we deem appropriate. These reports have not revealed any environmental liability or compliance concerns that we believe would materially adversely affect our financial condition or results of operations. However, the environmental assessments that we have undertaken might not have revealed all potential environmental liabilities or claims for such liabilities. It is also possible that future laws, ordinances or regulations or changed interpretations of existing laws and regulations will impose material environmental liability or compliance costs on us, that the current environmental conditions of properties we own or operate will be affected by other properties in the vicinity or by the actions of third parties unrelated to us or that our guests could introduce hazardous or toxic substances into the resorts we own or manage without our knowledge and expose us to liability under federal or state environmental laws. The costs of defending these claims, complying with as yet unidentified requirements, conducting this environmental remediation or responding to such changed conditions could adversely affect our financial condition and results of operations.

Some of our resort properties may have contained, or are adjacent to or near other properties that have contained or currently contain underground storage tanks for the storage of petroleum products or other hazardous or toxic substances. If hazardous or toxic substances were released from these tanks, we could incur significant costs or, with respect to tanks on our property, be liable to third parties with respect to the releases.

On occasion, we may elect to develop properties that have had a history of industrial activities and/or historical environmental contamination. Where such opportunities arise, we engage third-party experts to evaluate the extent of contamination, the scope of any needed environmental clean-up work, and available

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measures (such as creation of barriers over residual contamination and deed restrictions prohibiting groundwater use or disturbance of the soil) for ensuring that planned development and future property uses will not present unacceptable human health or environmental risks or exposure to liabilities. If those environmental assessments indicate that the development opportunities are acceptable, we also work with appropriate governmental agencies and obtain their approvals of planned site clean-up, development activities, and the proposed future property uses. We have followed that process in connection with the development of our Blue Harbor Resort in Sheboygan, Wisconsin, where the City of Sheboygan has arranged for environmental clean-up work and ongoing groundwater monitoring and we have agreed to the use of a barrier preventing contact with residual contamination and implementation of a deed restriction limiting site activities. To our knowledge, our work at our Sheboygan resort has been conducted in accordance with requirements imposed by the Wisconsin Department of Natural Resources. Based on these efforts, we are not aware of any environmental liability or compliance concerns at our Sheboygan resort that we believe would materially adversely affect our financial condition or results of operations. It is possible; however, that our efforts have not identified all environmental conditions at the property or that environmental condition and liabilities associated with the property could change in the future.

Future acquisitions of properties subject to environmental requirements or affected by environmental contamination could require us to incur substantial costs relating to such matters. In addition, environmental laws, regulations, wetlands, endangered species and other land use and natural resource issues affecting either currently owned properties or sites identified as possible future acquisitions may increase costs associated with future site development and construction activities or business or expansion opportunities, prevent, delay, alter or interfere with such plans or otherwise adversely affect such plans.

Insurance

We believe that our properties are covered by adequate fire, flood and property insurance, as well as commercial liability insurance with what we believe are commercially reasonable deductibles and limits for our industry. Changes in the insurance market over the past few years have increased the risk that affordable insurance may not be available to us in the future.

While our management believes that our insurance coverage is adequate, if we were held liable for amounts and claims exceeding the limits of our insurance coverage or outside the scope of our insurance coverage, our business, results of operations and financial condition could be materially and adversely affected.

Intellectual Property

We have registered, applied for the registration of or claim ownership of a variety of trade names, service marks, copyrights and trademarks for use in our business, including Blue Harbor Resort, Great Wolf Lodge, Great Wolf Resorts, gr8 space, KidCabin and Scoops Kid Spa in the United States and, where appropriate, in foreign countries. There can be no assurance that we can obtain the registration for the marks where registration has been sought. We are not aware of any facts that would negatively impact our continuing use of any of the above trade names, service marks or trademarks. We consider our intellectual property rights to be important to our business and actively defend and enforce them.

Employees

As of December 31, 2008, we had approximately 200 corporate employees, including our central reservations center employees, and approximately 4,100 resort-level employees, approximately 1,650 of whom were part-time employees. Unlike more seasonal resorts and attractions, we are open year-round and are able to attract and retain high quality employees throughout the year. However, we do have fewer part-time employees during the winter months.

None of our employees are covered by a collective bargaining agreement. We believe that our relationship with our employees is generally good.

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Offices

We lease approximately 13,800 square feet of office space for our corporate headquarters office and approximately 9,800 square feet of office space for our central reservations call center operations in Madison, Wisconsin. We also lease approximately 3,800 square feet of office space in Falls Church, Virginia, approximately 1,500 square feet of office space in North Ridgeville, Ohio, and approximately 300 square feet of office space in New York, New York. We believe these facilities are adequate for our current needs.

Domestic and Foreign Operations

We derive a portion of our revenues from licensing fees, management fees, construction management fees and central reservations fees paid by the Great Wolf Lodge resort located in Niagara Falls, Ontario, Canada. During 2008, 2007 and 2006, the total revenue we received from U.S. operations was \$243,041, \$185,015 and \$148,648, respectively, and the total revenue from Canadian operations was \$2,497, \$2,565 and \$1,664, respectively. We receive no revenue from any foreign country other than Canada. We have no long-lived assets located outside of the United States.

Code of Business Conduct and Ethics

We have adopted a Code of Business Conduct and Ethics that applies to all our employees, including our principal executive officer and senior financial officers. It is available in the investor relations section of our Web site, which is located at www.greatwolf.com. In the event that we make changes to or provide waivers from the provisions of our Code of Business Conduct and Ethics that the United States Securities Exchange Commission (SEC) or any other regulatory agency or NASDAQ requires us to disclose, we intend to disclose these events in the investor relations section of our Web site.

Available Information

We maintain a Web site at www.greatwolf.com. Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act), as well as our Annual Report to stockholders, proxy statements and Section 16 reports on Forms 3, 4, and 5, are available free of charge via EDGAR/IDEA through the SEC's Web site at www.sec.gov. On our Web site we have a page for all of our filings that is updated automatically when filings are added to the SEC's Web site.

ITEM 1A. RISK FACTORS

The risk factors set forth below are applicable to Great Wolf Resorts. You should carefully consider the following factors in evaluating our company, our properties and our business. The occurrence of any of the following risks could materially adversely affect, among other things, our business, financial condition and results of operations.

Risks Related to Our Business

Current economic conditions, including recent disruptions in the financial markets may adversely affect our industry, business and results of operations, our ability to obtain financing on reasonable and acceptable terms and the market price of our common stock.

The United States economy is currently undergoing a significant slowdown, which some observers view as a recession, and the future economic environment may continue to be less favorable than that of recent years. This slowdown has and could further lead to reduced consumer and commercial spending in the foreseeable future. The

hospitality industry may experience significant downturns in connection with, or in anticipation of, declines in general economic conditions. Declines in consumer and commercial spending may drive us and our competitors to reduce pricing, which would have a negative impact on our gross profit. A continued softening in the economy may adversely and materially affect our industry, business and results of operations and we can not accurately predict how severe and prolonged any downturn might be. Moreover,

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reduced revenues as a result of a softening of the economy may also reduce our working capital and interfere with our long term business strategy.

The United States stock and credit markets have recently experienced significant price volatility, dislocations and liquidity disruptions, which have caused market prices of many stocks to fluctuate substantially and the spreads on prospective and outstanding debt financings to widen considerably. These circumstances have materially impacted liquidity in the financial markets, making terms for certain financings materially less attractive, and in certain cases have resulted in the unavailability of certain types of financing. Continued uncertainty in the stock and credit markets may negatively impact our ability to access additional short-term and long-term financing, including future securitization transactions, on reasonable terms or at all, which would negatively impact our liquidity and financial condition. A prolonged downturn in the stock or credit markets may cause us to seek alternative sources of potentially less attractive financing, and may require us to adjust our business operations accordingly. In addition, if one or more of the financial institutions that support our existing credit facilities fails, we may not be able to find a replacement, which would negatively impact our ability to borrow under the credit facilities. These disruptions in the financial markets also may adversely affect our credit rating and the market value of our common stock.

In addition, if the current pressures on credit continue or worsen, we may not be able to refinance, if necessary, our outstanding debt when due, which could have a material adverse effect on our business. While we believe we have adequate sources of liquidity to meet our anticipated requirements for working capital, debt servicing and capital expenditures for the foreseeable future, if our operating results worsen significantly and our cash flow or capital resources prove inadequate, or if interest rates increase significantly, we could face liquidity problems that could materially and adversely affect our results of operations and financial condition.

We may not be able to develop new resorts or further develop existing resorts on a timely or cost efficient basis, which would adversely affect our growth strategy.

As part of our growth strategy, we currently intend to develop additional resorts or possibly to further expand certain of our existing resorts. Development involves substantial risks, including the following risks:

development costs may exceed budgeted or contracted amounts or may exceed available capital;

increases in the costs of materials or supplies used in construction of our resorts;

changes in applicable building codes, construction materials, labor costs or construction methodologies may increase development costs;

delays in architectural or other design-related services, or in the commencement or completion of construction;

failure to obtain all necessary zoning, land use, occupancy, construction, operating and other required governmental permits and authorizations;

changes in real estate, zoning, land use, environmental and tax laws;

unavailability of financing on favorable or any terms;

failure of developed properties to achieve desired revenue or profitability levels once opened;

scarcity of suitable development sites, due to existing development, physical limitation or competition for sites from competitors that may have greater financial resources or risk tolerance than we do or other factors; and

incurrence of substantial costs in the event a development project is abandoned or modified prior to completion.

In particular, resort construction projects entail significant risks, including shortages of design and construction expertise, materials or skilled labor, unforeseen engineering, environmental or geological problems, work stoppages, weather interference, floods and unanticipated cost increases. There are also a

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limited number of suppliers and manufacturers of the equipment we use in our indoor waterparks. We may not be able to successfully manage our development to minimize these risks, and there can be no assurance that present or future developments will perform in accordance with our previous developments or our expectations.

We compete with other family vacation travel destinations and resorts.

Our resorts compete with other forms of family vacation travel and leisure activities, including theme, water and amusement parks and other recreational activities. Our business is also subject to factors that affect the recreation and leisure and resort industries generally, such as general economic conditions and changes in consumer spending habits. We believe the principal competitive factors of a family entertainment resort include:

- location,
- room rates,
- name recognition,
- reputation,
- the uniqueness and perceived quality of the attractions and amenities,
- the atmosphere and cleanliness of the attractions and amenities,
- the quality and perceived value of the lodging accommodations,
- the quality and perceived value of the food and beverage service,
- convenience,
- service levels and
- reservation systems.

Many of our markets have become more competitive, including in particular our Wisconsin Dells, Sandusky, Mason, Pocono Mountains and Traverse City markets. We anticipate that competition within some of our markets will increase further in the foreseeable future. A number of other resort operators are developing family entertainment resorts with indoor waterparks that will compete with some or all of our resorts. We compete for guests and for new development sites with certain of these entities that may have greater financial resources than we do and better relationships with lenders and sellers of real estate. These entities may be able to accept more risk than we can prudently manage and may have greater marketing and financial resources. Further, there can be no assurance that new or existing competitors will not significantly reduce their rates, as they have in the past, or offer greater convenience, services or amenities, significantly expand or improve resorts, including the addition of thrill rides, in markets in which we operate. Such events could materially adversely affect our business and results of operations.

We may not be able to achieve or manage our expected growth, which could adversely affect our operating results.

Since 1999, we have experienced substantial growth as we have grown from operating one resort to our current portfolio of eleven resorts at December 31, 2008. We intend to continue to develop additional resorts and manage additional licensed resorts owned either by joint ventures in which we have an equity interest or by third parties. Our

anticipated growth could place a strain on our management, employees and operations. Our growth has increased our operating complexity and the level of responsibility for new and existing management. Our ability to compete effectively and to achieve and/or manage our recent and future growth effectively will depend on our ability to implement and improve financial and management information systems on a timely basis and to effect changes in our business, such as implementing internal controls to handle the increased size of our operations and hiring, training, developing and managing an increasing number of experienced management-level and other employees. Unexpected difficulties during expansion, the

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loss of or failure to attract and retain qualified employees or our inability to respond effectively to recent growth or plan for future expansion, could adversely affect our results of operations.

Accidents or injuries in our resorts, particularly in our waterparks, may subject us to liability, and accidents or injuries at our resorts or at competing resorts with waterparks could adversely affect our safety reputation and attendance, which would harm our business, financial condition and results of operations.

There are inherent risks of accidents or injuries at family entertainment resorts, including accidents or injuries at waterparks, particularly for young children if their parents do not provide appropriate supervision. The lifeguards in our indoor waterparks and our other resort staff cannot prevent every accident or injury. Potential waterpark accidents and injuries include falls, cuts or other abrasions, concussions and other head injuries, sickness from contaminated water, chlorine-related irritation, injuries resulting from equipment malfunctions and drownings. One or more accidents or injuries at any of our waterparks or at other waterparks could reduce attendance at our resorts, adversely affect our safety reputation among our potential customers, decrease our overall occupancy rates, increase the cost of or make unavailable to us the appropriate liability insurance policies and increase our operating costs by requiring us to take additional measures to make our safety precautions even more visible and effective.

If accidents or injuries occur at any of our resorts, we may be held liable for costs related to the injuries. We maintain insurance of the type and in the amounts that we believe are commercially reasonable and that are available to businesses in our industry, but there can be no assurance that our liability insurance will be adequate or available at all times and in all circumstances to cover any liability for these costs. There can also be no assurance that the liability insurance carried by Great Lakes prior to our initial public offering (IPO) was adequate or available to cover any liability related to incidents occurring prior to our IPO. Our business, financial condition and results of operations would be adversely affected to the extent claims and associated expenses resulting from accidents or injuries exceed our insurance recoveries.

We have a history of losses and we may not be able to achieve or sustain profitability.

We incurred net losses in the years ended December 31, 2008, 2007 and 2006. We cannot guarantee that we will become profitable. Given the increasing competition in our industry and capital intensive nature of our business, we may not be able to sustain or increase profitability on a quarterly or annual basis, and our failure to do so could adversely affect our business and financial condition.

Our business is largely dependent upon family vacation patterns, which may cause fluctuations in our revenues.

Since most families with young children choose to take vacations during school breaks and on weekends, our occupancy is highest on the weekends and during months with prolonged school breaks, such as the summer months and spring break weeks in March and April. Our occupancy is generally lowest during May and September as children return to school following these prolonged breaks. As a result of these family vacation patterns, our revenues may fluctuate. We may be required to enter into short-term borrowings in slower periods in order to offset such fluctuations in revenues and to fund our anticipated obligations. In addition, adverse events occurring during our peak occupancy periods would have an increased impact on our results of operations. There can be no assurance that we would be able to secure short-term borrowing on favorable terms, or at all.

We may not be able to attract a significant number of customers from our key target markets, which would adversely affect our business, financial condition and results of operations.

Our strategy emphasizes attracting and retaining customers from the local, or drive-to, markets within a convenient driving distance from each of our resorts. Any resorts we develop in the future are similarly likely to be dependent

primarily on the markets in the immediate vicinity of such resorts. Regional economic difficulties, for example the issues affecting domestic automotive manufacturers and the related impact in Michigan and surrounding areas, may have a disproportionately negative impact on our resorts in the affected

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markets. There can be no assurance that we will be able to continue to attract a sufficient number of customers in our local markets to make our resort operations profitable. If we fail to do so, our business, financial condition and results of operations would be adversely affected.

Because we concentrate in a single industry segment, we may be adversely affected by a downturn in that industry segment.

Our assets and operations are concentrated in a single industry segment – family entertainment resorts. Our current strategy is to expand the number of our resorts and improve our existing resorts. Therefore, a downturn in the entertainment, travel or vacation industries, in general, and the family entertainment resort segment, in particular, could have an adverse effect on our business and financial condition.

Changes in consumer spending habits may affect our growth, financial condition and results of operations.

The success of our operations depends to a significant extent upon a number of factors relating to discretionary consumer spending, including economic conditions affecting disposable consumer income such as employment, business conditions, interest rates and taxation. In recent months, consumer spending has been adversely affected by economic conditions. Accordingly, our growth, financial condition and results of operations have been adversely impacted. Continued adverse developments affecting economies throughout the world, including a general tightening of the availability of credit, increasing interest rates, increasing energy costs, acts of war or terrorism, natural disasters, declining consumer confidence or significant declines in the stock market could lead to a further reduction in discretionary spending on leisure activities, thereby adversely affecting our business.

Increases in operating costs and other expense items could reduce our operating margins and adversely affect our growth, financial condition and results of operations.

Increases in operating costs due to inflation and other factors may not be directly offset by increased rooms and other revenue. Our most significant operating costs are our labor, energy, insurance and property taxes. Many, and in some cases all, of the factors affecting these costs are beyond our control.

Labor is our primary resort-level operating expense. As of December 31, 2008, we employed approximately 4,100 hourly-wage and salaried employees in our resorts. If we face labor shortages or increased labor costs because of increased competition for employees, higher employee turnover rates or increases in the federal minimum wage or other employee benefits costs (including costs associated with health insurance coverage), our operating expenses could increase and our growth could be adversely affected. Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including resort managers, lifeguards, waterpark maintenance professionals and resort staff, necessary to keep pace with our expansion schedule. The number of qualified individuals needed to fill these positions is in short supply in some areas. Any future inability to recruit and retain sufficient individuals may delay the planned openings of new resorts. Competition for qualified employees could also require us to pay higher wages to attract a sufficient number of employees.

Energy costs also account for a significant portion of our total resort-level operating expenses. The price of energy is volatile, and shortages sometimes occur. Significant increases in the cost of energy, or shortages of energy, could interrupt or curtail our operations, lower our operating margins, or both.

The costs for maintaining adequate insurance coverage fluctuate and are generally beyond our control. If insurance rates increase and we are not able to pass along those increased costs to our customers through higher room rates and amenity costs, our operating margins could suffer.

Each of our resorts is subject to real and personal property taxes. The real and personal property taxes on our resorts may increase or decrease as tax rates change and as our resorts are assessed or reassessed by taxing authorities. If property taxes increase and we are unable to pass these increased costs along to our customers

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through higher room rates and amenity costs, our financial condition and results of operations may be adversely affected.

Uninsured losses or losses in excess of our insurance coverage could adversely affect our financial condition and our cash flow, and there are a limited number of insurers that will underwrite coverage for resorts with indoor waterparks.

We maintain comprehensive liability, fire, flood (where appropriate) and extended coverage insurance with respect to our resorts with policy specifications, limits and deductibles that we believe are commercially reasonable for our operations and are available to businesses in our industry. Certain types of losses, however, may be either uninsurable or not economically insurable, such as losses due to earthquakes, riots, acts of war or terrorism, or losses related to the award of punitive damages in a legal action. Should an uninsured loss occur, we could lose both our investment in, and anticipated profits and cash flow from, a resort. If any such loss is insured, we may be required to pay a significant deductible on any claim for recovery of such a loss prior to our insurer being obligated to reimburse us for the loss or the amount of the loss may exceed our coverage for the loss. In addition, we may not be able to obtain insurance in the future at acceptable rates, or at all, and insurance may not be available to us on favorable terms or at all, including insurance for the construction and development of our resorts, especially since there are a limited number of insurance companies that underwrite insurance for indoor waterparks.

We will be required to make certain capital expenditures to maintain the quality of our resorts, which could adversely affect our financial condition and results of operations.

Our resorts have an ongoing need for renovations and other capital improvements, including periodic replacement of furniture, fixtures and equipment. The cost of such capital improvements could have an adverse effect on our financial condition and results of operations. Such renovations involve certain risks, including the possibility of environmental problems, construction cost overruns and delays, the possibility that we will not have available cash to fund renovations or that financing for renovations will not be available on favorable terms, if at all, uncertainties as to market demand or deterioration in market demand after commencement of renovation and the emergence of unanticipated competition from other entities. If we are unable to meet our capital expenditure needs, we may not be able to maintain the quality of our resorts.

We may not be able to adequately protect our intellectual property, which could harm the value of our brands and adversely affect our business.

The success of our resorts depends in part on our brands, logos and branded merchandise. We rely on a combination of service marks, copyrights, trademarks and similar intellectual property rights to protect our brands, logos, branded merchandise and other intellectual property. The success of our growth strategy depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our brand in both domestic and international markets. We also use our trademarks and other intellectual property on the Internet. If our efforts to protect our intellectual property are not adequate, or if any third party misappropriates or infringes on our intellectual property, either in print or on the Internet, the value of our brands may be harmed, which could have a material adverse effect on our business, including the failure of our brands, logos and branded merchandise to achieve and maintain market acceptance.

We have licensed our Great Wolf Lodge brand and intend to further license the brand in domestic and international markets. While we try to ensure that the quality of our brand is maintained by our current licensees, and will be maintained by any future licensees, we cannot assure that these licensees will not take actions that adversely affect the value of our intellectual property or reputation.

We have registered certain trademarks and have other trademark registrations pending in the United States and foreign jurisdictions. There is no guarantee that our trademark registration applications will be granted. In addition, the trademarks that we currently use have not been registered in all of the countries in which we do, or intend to do, business and may never be registered in all of these countries. We cannot assure you that we

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will be able to adequately protect our trademarks or that our use of these trademarks will not result in liability for trademark infringement, trademark dilution or unfair competition.

We may not have taken all the steps necessary to protect our intellectual property in the United States and foreign countries. In addition, the laws of some foreign countries do not protect intellectual property rights to the same extent as the laws of the United States.

Our operations may be adversely affected by extreme weather conditions and the impact of disasters.

We currently operate, and in the future intend to operate, our resorts in a number of different markets, each of which is subject to local weather patterns and their effects on our resorts, especially our guests' ability to travel to our resorts. Extreme weather conditions can from time to time have a material adverse impact upon individual resorts or particular regions. Our resorts are also vulnerable to the effects of destructive forces, such as fire, storms, high winds and flooding and any other occurrence that could affect the supply of water, gas, telephone or electricity to our resorts. Although our resorts are insured against property damage, damages resulting from acts of God or otherwise may exceed the limits of our insurance coverage or be outside the scope of that coverage.

A significant decline in real estate values may have an adverse impact on our financial condition.

We own significant amounts of real estate throughout the United States. A significant decline in real estate values could have an impact on our ability to readily generate cash flow from the real estate to meet our debt or other obligations.

If we fail to maintain effective internal controls over financial reporting or remediate any future material weakness in our internal control over financial reporting, we may be unable to accurately report our financial results or prevent fraud, which could have a material adverse effect on our financial results and our stock price.

Our internal controls over financial reporting are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Effective internal controls over financial reporting are necessary for us to provide reliable reports and prevent fraud.

We believe that a control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within a company have been detected. Failure to maintain effective internal controls over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our business and stock price.

Sustained increases in costs of medical and other employee health and welfare benefits may reduce our profitability.

With more than 4,300 employees, our profitability is substantially affected by costs of current medical benefits. In some recent years, we experienced significant increases in these costs as a result of macro-economic factors beyond our control, including increases in health care costs. At least some of these macro-economic factors may put upward pressure on the cost of providing medical benefits. Although we have actively sought to control increases in these costs, there can be no assurance that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

We may have disputes with our joint venture partners owning majority interests in three resorts that we manage and license.

We manage and license some of our resort properties. The nature of our responsibilities under our management agreements to manage each resort and enforce the standards required for our brands under both

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management and license agreements may be subject to interpretation and may give rise to disagreements in some instances. We seek to resolve any disagreements in order to develop and maintain positive relations with current and potential joint venture partners but may not always be able to do so. Failure to resolve such disagreements may result in litigation. In addition, the terms of our management agreements and license agreements for some of our facilities are influenced by contract terms offered by our competitors, among other things. We cannot assure you that any of our current arrangements will continue or that we will be able to enter into future collaborations, renew agreements, or enter into new agreements in the future on terms that are as favorable to us as those that exist today.

Because the land used by two of our resorts are subject to ground leases, termination of these leases by the lessors could cause us to lose the ability to operate these resorts altogether and incur substantial costs in restoring the premises.

Our rights to use the land underlying two of our resorts are based upon our interest under long-term ground leases. Pursuant to the terms of the ground leases for these resorts, we are required to pay all rent due and comply with all other lessee obligations. As of December 31, 2008, the terms of these ground leases (including renewal options) range from 49 to 95 years. Any pledge of our interest in a ground lease may also require the consent of the applicable lessor and its lenders. As a result, we may not be able to sell, assign, transfer or convey our lessee's interest in any resort subject to a ground lease in the future absent consent of such third parties even if such transactions may be in the best interest of our stockholders.

The lessors may require us, at the expiration or termination of the ground leases, to surrender or remove any improvements, alterations or additions to the land at our own expense. The ground leases also generally require us to restore the premises following a casualty and to apply in a specified manner any proceeds received in connection therewith. We may have to restore the premises if a material casualty, such as a fire or an act of God, occurs and the cost thereof exceeds available insurance proceeds.

We are subject to the risks of brand concentration.

We are subject to the potential risks associated with concentration of our resorts under the Great Wolf Lodge brand and the brand image associated with each geographic location. A negative public image or other adverse event which becomes associated with one of our brands could adversely affect its revenue and profitability.

A failure to keep pace with developments in technology could impair our operations or competitive position.

The hospitality industry continues to demand the use of sophisticated technology and systems, including those used for our reservation, revenue management and property management systems and technologies we make available to our guests. These technologies and systems must be refined, updated, and/or replaced with more advanced systems on a regular basis. If we are unable to do so as quickly as our competitors or within budgeted costs and time frames, our business could suffer. We also may not achieve the benefits that we anticipate from any new technology or system, and a failure to do so could result in higher than anticipated costs or could impair our operating results.

An increase in the use of third-party Internet reservation services could adversely impact our revenues.

Some of our resort rooms are booked through Internet travel intermediaries, such as Expedia.com[®], Travelocity.com[®], and Priceline.com[®], serving both the leisure and, increasingly, the corporate travel and group meeting sectors. These intermediaries attempt to commoditize hotel rooms by aggressively marketing to price-sensitive