

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.

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**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).

	<b>Ownership Percentage</b>	<b>Opened/ Opening</b>	<b>Number of Guest Suites</b>	<b>Number of Condo Units(1)</b>	<b>Indoor Entertainment Area(2) (Approx. ft<sup>2</sup>)</b>
<b>Existing Resorts:</b>					
Wisconsin Dells, WI(3)	30.32%	1997	308	77	102,000
Sandusky, OH(3)	30.32%	2001	271		41,000
Traverse City, MI	100%	2003	280		57,000
Kansas City, KS	100%	2003	281		57,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		87,000
Pocono Mountains, PA	100%	2005	401		101,000
Niagara Falls, ONT(4)		2006	406		104,000
Mason, OH	100%	2006	401		105,000
Grapevine, TX(5)	100%	2007	605		110,000
Grand Mound, WA(6)	49%	2008	398		74,000
<b>Resort Under Construction:</b>					
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<sup>®</sup> suites that feature a log cabin bunk bed room, our Wolf Den Suites<sup>™</sup> that feature a themed den enclosure with bunk beds and our KidKamp<sup>™</sup> suites that feature bunk beds in a themed tent enclosure. We also offer larger rooms, such as our Majestic Bear Suite<sup>™</sup> and Grizzly Bear Suite<sup>™</sup>, 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](http://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](http://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](http://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<sup>®</sup>, Travelocity.com<sup>®</sup>, and Priceline.com<sup>®</sup>, 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 travelers and corporate accounts and increasing the importance of general indicators of quality (such as three-star downtown hotel) at the expense of brand identification. These agencies hope that consumers will eventually develop brand loyalties to their travel services rather than to our lodging brands. Although we expect to continue to maintain and even increase

the strength of our brands in the online

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marketplace, if the amount of sales made through Internet intermediaries increases significantly, our business and profitability may be harmed.

### ***The illiquidity of real estate may make it difficult for us to dispose of one or more of our resorts.***

We may from time to time decide to dispose of one or more of our real estate assets. Because real estate holdings generally, and family entertainment resorts like ours in particular, are relatively illiquid, we may not be able to dispose of one or more real estate assets on a timely basis or at a favorable price. The illiquidity of our real estate assets could mean that we continue to operate a facility that management has identified for disposition. Failure to dispose of a real estate asset in a timely fashion, or at all, could adversely affect our business, financial condition and results of operations.

### ***We may have assumed unknown liabilities in connection with the IPO.***

As part of the IPO, we acquired our predecessor companies (The Great Lakes Companies, Inc. and a number of its related entities), referred to in this Annual Report on Form 10-K as the Predecessor, in a series of transactions we refer to in this Annual Report on Form 10-K as the Formation Transactions. We acquired our Predecessor subject to existing liabilities, some of which may have been unknown at the time of the closing thereof. Unknown liabilities might include liabilities for cleanup or remediation of undisclosed environmental conditions, claims of vendors or other persons dealing with the entities prior to the closing of the Formation Transactions (that had not been asserted or threatened prior thereto), tax liabilities and accrued but unpaid liabilities incurred in the ordinary course of business. The founding shareholders of our predecessor companies agreed to indemnify us with respect to claims for breaches of representations and warranties brought by us within one year following the completion of our IPO and the Formation Transactions, subject to certain limitations. Since the one year period expired on December 20, 2005, we have limited recourse against the founding shareholders for any liabilities subsequently identified.

### ***We depend on a seasonal workforce.***

Our resort operations are dependent on a seasonal workforce. In some cases, we hire documented foreign workers to fill certain staffing needs each season and utilize visas to enable the use of foreign workers. In addition, we manage seasonal wages and the timing of the hiring process to ensure the appropriate workforce is in place. We cannot guarantee that material increases in the cost of securing our seasonal workforce will not be necessary in the future. In addition, we cannot guarantee that we will be able to obtain the visas necessary to hire foreign workers who are a source for some of the seasonal workforce. Increased seasonal wages or an inadequate workforce could have an adverse impact on our results of operations.

## **Risks Related to Regulation**

### ***Compliance with the Americans with Disabilities Act and other governmental regulations and changes in governmental rules and regulations may adversely affect our financial condition and results of operations.***

Under the Americans with Disabilities Act of 1990 and the regulations promulgated there under, or the ADA, all public accommodations 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,

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we have not conducted an audit or investigation of all of our resorts to determine our compliance. A determination that we are not in compliance with the ADA could result in the imposition of fines or an award of damages to private litigants. We cannot predict the ultimate cost of compliance with the ADA.

The resort industry is also subject to numerous federal, state and local governmental regulations including those related to building and zoning requirements, and we are subject to laws governing our relationship with our employees, including minimum wage requirements, overtime, working conditions and work permit requirements. In addition, changes in governmental rules and regulations or enforcement policies affecting the use and operation of our resorts, including changes to building codes and fire and life safety codes, may occur. If we were required to make substantial modifications at our resorts to comply with the ADA, other governmental regulations or changes in governmental rules and regulations, our financial condition and results of operations could be adversely affected.

***We face possible liability for environmental cleanup costs and damages for contamination related to our properties, which could adversely affect our business, financial condition and results of operations.***

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 ongoing 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, and of paying penalties, fines, assessments and the like related to non-compliance, as they now exist or may be altered in the future, could adversely affect our financial condition and results of operations. Specifically, the wastewater treatment plant at our Pocono Mountains resort is subject to numerous state, federal and other regulations. The cost of compliance with such regulations for penalties, remediation and other costs arising out of non compliance, can be large, as occurred in 2006 when we agreed to pay an assessment of \$833 and incurred other costs in excess of \$1,000 to remediate wastewater discharges that were out of compliance with applicable permits and to prevent further out-of-compliance discharges. In 2008 and 2007 we incurred other costs of \$270 and \$300, respectively, to remediate wastewater discharges that were out of compliance with applicable permits and to prevent further out-of-compliance discharges.

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

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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 participate in the development of 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 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.

***Regulation of the marketing and sale of condominiums, including a prior offer of condominiums at our Blue Harbor Resort, could adversely affect our business.***

Our marketing and sales of condominium units are subject to extensive regulation by the federal government and the states in which our condominiums are marketed and sold. On a federal level, the Federal Trade Commission Act prohibits unfair or deceptive acts or competition in interstate commerce. Other federal legislation to which we are or may be subject includes the Interstate Land Sales Full Disclosure Act, the Real Estate Settlement Practices Act and the Fair Housing Act. In addition, many states have adopted specific laws and regulations regarding the sale of condominiums. For example, certain state laws grant the purchaser the right to cancel a contract of purchase within a specified period following the earlier of the date the contract was signed or the date the purchaser has received the last of the documents required to be provided by the seller. No assurance can be given that the cost of qualifying under condominium regulations in all jurisdictions in which we desire to conduct sales will not be significant. The failure to

comply with such laws or regulations could adversely affect our business, financial condition and results of operations.

There can be no assurance that prior or future sales of our condominium units will not be considered offers or sales of securities under federal law or the state law in the states where we desire to, or do,

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conduct sales or in which our properties are located. If such interests were considered to be securities, we would be required to comply with applicable state and federal securities laws, including laws pertaining to registration or qualification of securities, licensing of salespeople and other matters. There can be no assurance that we will be able to comply with the applicable state and federal securities requirements, and if the offers or sales of our condominium units are deemed to be offers or sales of securities, such a determination may create liabilities or contingencies that could have an adverse effect on our operations, including possible rescission rights relating to the units that have been sold, which, if exercised, could result in losses and would adversely affect our business, financial condition and results of operations.

In particular, it is possible that the prior offer of condominiums at our Sheboygan resort by Blue Harbor Resort Condominium, LLC, a former subsidiary of our predecessor company that we refer to as Condo LLC, may not have been in compliance with federal and state securities laws. Prior to our IPO and the completion of the Formation Transactions, interests in Condo LLC held by our predecessor company were distributed to the predecessor company's shareholders. We did not acquire Condo LLC as a part of the Formation Transactions. Although Condo LLC has taken steps to correct any potential securities laws issues in connection with these offers, we cannot assure you that we would not be held liable to some extent for the offers made by Condo LLC.

***Failure to maintain the integrity of internal or customer data could result in faulty business decisions, damage of reputation and/or subject us to costs, fines or lawsuits.***

Our business requires collection and retention of large volumes of internal and customer data, including credit card numbers and other personally identifiable information of our customers as they are entered into, processed by, summarized by, and reported by our various information systems. We also maintain personally identifiable information about our employees. The integrity and protection of that customer, employee, and company data is critical to us. If that data is not accurate or complete we could make faulty decisions. Our customers and employees also have a high expectation that we will adequately protect their personal information, and the regulatory environment surrounding information security and privacy is increasingly demanding, both in the U.S. and other international jurisdictions in which we operate. A significant theft, loss or fraudulent use of customer, employee or company data could adversely impact our reputation and could result in remedial and other expenses, fines and litigation.

***Changes in privacy law could adversely affect our ability to market our products effectively.***

Our resorts rely on a variety of direct marketing techniques, including email marketing, and postal mailings. Any further restrictions in laws such as the Telemarketing Sales Rule, CANSPAM Act, and various U.S. state laws, or new federal laws, regarding marketing and solicitation or international data protection laws that govern these activities could adversely affect the continuing effectiveness of email and postal mailing techniques and could force further changes in our marketing strategy. If this occurs, we may not be able to develop adequate alternative marketing strategies, which could adversely impact the amount and timing of our sales.

## **Risks Related to Our Capital Structure**

***We may issue partnership units in the future that may be dilutive to, and may have preferential rights over, our common stockholders.***

We have formed a wholly owned operating partnership to serve as the parent entity of each of the resort-owning entities that we acquired in the formation transactions. We are the limited partner of the partnership and the sole general partner of the partnership is a wholly owned subsidiary that we have formed for that purpose. We formed the operating partnership to provide flexibility for future transactions as we execute our growth strategy. We believe that



the ability to issue limited partnership units may enable us to acquire assets from sellers seeking certain tax treatment. Any additional operating partnership interests we issue may include preferred limited partnership units. Any partnership interests that we issue may be entitled to distributions of available cash that might otherwise be allocated to the execution of our business plan or generally available

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for future dividends, if any. In addition, any partnership interests may be convertible into our common stock, thus having a dilutive impact to our common stockholders, and may have voting or other preferential rights relative to those of our common stockholders.

***Our stock price has been volatile in the past and may be volatile in the future.***

On December 20, 2004, we completed our IPO. Trading markets after an initial public offering have often been extremely volatile. Since our IPO through March 3, 2009, our common stock has traded at a high of \$25.88 and a low of \$0.61. The following factors could cause the price of our common stock in the public market to fluctuate significantly:

variations in our quarterly operating results;

changes in market valuations of companies in the resort or entertainment industries, generally, and the family entertainment resort segment, specifically;

fluctuations in stock market prices and volumes;

issuances of common stock or other securities in the future;

the addition or departure of key personnel;

announcements by us or our competitors of new properties, acquisitions or joint ventures, or our failure to announce new properties of a type or in a quantity deemed desirable by participants in the public market; and

expectations about macroeconomic condition.

Volatility in the market price of our common stock may prevent investors from being able to sell their common stock at or above the price an investor pays for our common stock. In the past, class action litigation has often been brought against companies following periods of volatility in the market price of those companies' common stock. Litigation is often expensive and diverts management's attention and company resources and could have a material adverse effect on our business, financial condition and operating results.

***The sale of a substantial number of shares of our common stock may cause the market price of our common stock to decline.***

If our stockholders sell substantial amounts of shares of common stock in the public market, including the shares issued in connection with our Formation Transactions, or upon the exercise of outstanding options, or if the market perceives that these sales could occur, the market price of our common stock could decline. These sales also might make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate, or to use equity as consideration for future acquisitions.

***Provisions in our certificate of incorporation, bylaws, employment agreements and Delaware law have anti-takeover effects that could prevent a change in control that could be beneficial to our stockholders, which could depress the market price of our common stock.***

Our certificate of incorporation, bylaws, and employment agreements and Delaware corporate law contain provisions that could delay, defer, increase the costs of or prevent a change in control of us or our management that could be beneficial to our stockholders. Certain of these provisions could also discourage proxy contests and make it more

difficult for stockholders to elect directors and take other corporate actions. As a result, these provisions could limit the price that investors are willing to pay in the future for shares of our common stock. These provisions might also discourage a potential acquisition proposal or tender offer, even if the acquisition proposal or tender offer is at a price above the then current market price for our common stock. These provisions:

authorize our board of directors to issue blank check preferred stock and determine the powers, preferences and privileges of those shares without prior stockholder approval;

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prohibit the right of our stockholders to act by written consent;

limit the calling of special meetings of stockholders;

impose a requirement that holders of 50% of the outstanding shares of common stock are required to amend the provisions relating to actions by written consent of stockholders and the limitations of calling special meetings; and

provide for payments to certain of our executive officers upon termination of employment within certain time periods before or after a change of control.

***Our organizational documents contain no limitations on the amount of debt we may incur, so we may become too highly leveraged.***

Our organizational documents do not limit the amount of indebtedness that we may incur. If we increase the level of our borrowings, then the resulting increase in cash flow that must be used for debt service would reduce cash available for distribution and could harm our ability to make payments on our outstanding indebtedness and our financial condition.

***We may not be able to obtain additional financing on favorable terms, if at all.***

We expect that we will require additional financing over time, the amount of which will depend on a number of factors, including the number of resorts we construct, additions to our current resorts and the cash flow generated by our resorts. The terms of any additional financing we may be able to procure are unknown at this time. Our access to third-party sources of capital depends, in part, on some or all of the following:

general capital market conditions;

capital providers' perception of our growth potential;

our then-current debt levels;

our then-current and expected future earnings;

our cash flow; and

the market price per share of our common stock.

Any future debt financing or issuances of preferred stock that we may make will be senior to the rights of holders of our common stock, and any future issuances of common stock will result in the dilution of the then-existing stockholders' proportionate equity interest.

***Investing through partnerships or joint ventures decreases our ability to manage risk.***

In addition to acquiring or developing resorts, we have from time to time invested, and expect to continue to invest, as a co-venturer. Joint venturers often have shared control over the operation of the joint venture assets. Therefore, joint venture investments may involve risks such as the possibility that the co-venturer in an investment might become bankrupt or not have the financial resources to meet its obligations, or have economic or business interests or goals

that are inconsistent with our business interests or goals, or be in a position to take action contrary to our instructions or requests or contrary to our policies or objectives. Consequently, actions by a co-venturer might subject any resorts owned by the joint venture to additional risk. Further, we may be unable to take action without the approval of our joint venture partners. Alternatively, our joint venture partners could take actions binding on the joint venture without our consent. Additionally, should a joint venture partner become bankrupt, we could become liable for our partner's share of joint venture liabilities.

***The covenants in our mortgage loan agreements impose significant restrictions on us.***

The terms of our mortgage loan agreements impose significant operating and financial restrictions on us and our subsidiaries and require us to meet certain financial tests. These restrictions could also have a negative

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impact on our business, financial condition and results of operations by significantly limiting or prohibiting us from engaging in certain transactions, including:

- incurring or guaranteeing additional indebtedness;
- transferring or selling assets currently held by us;
- transferring ownership interests in certain of our subsidiaries; and
- reducing our tangible net worth below specified levels.

The failure to comply with any of these covenants could cause a default under a debt agreement. Any of these defaults, if not waived, could result in the acceleration of all of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it on favorable terms, if any.

***Because we have guaranteed certain mortgage-related obligations of our subsidiaries if our subsidiary fails to meet its obligations under the mortgage, we may be required to satisfy such obligations and such an undertaking could have an adverse affect on our financial condition.***

We have provided a \$15,000 corporate guaranty and cross-collateralization on the company's Grapevine, Texas resort property and a \$79,900 payment and completion guaranty on the company's Concord, North Carolina resort property. If our subsidiaries default on their obligations we would be required to assume that obligation, including the payment of any outstanding debt amounts. If we are required to undertake such obligations, it may have an adverse affect on our business, financial condition and results of operations.

***Certain of our insiders exercise considerable influence over the company.***

As of the date of this Annual Report on Form 10-K, our executive officers and directors, as a group, beneficially own approximately 9.1% of the outstanding shares of our common stock. By reason of such holdings, these stockholders acting as a group could be able to exercise significant influence over our affairs and policies, including the election of our board of directors and matters submitted to a vote of our stockholders such as mergers and significant asset sales, and their interests might not be consistent with the interests of other stockholders.

## **Forward-Looking Statements**

Certain information included in this Annual Report on Form 10-K contains, and other materials filed or to be filed by us with the Securities and Exchange Commission, or the SEC, contain or will contain, forward-looking statements. All statements, other than statements of historical facts, including, among others, statements regarding our future financial results or position, business strategy, projected levels of growth, projected costs and projected financing needs, are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of Great Wolf Resorts, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as may, will, seeks, anticipates, believes, expects, plans, intends, should or similar expressions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that actual results may differ materially from those contemplated by such forward-looking statements. Important factors currently known to our management that could cause actual results to differ materially from those in forward-looking statements include those set forth above under the section entitled Risk Factors.

We believe these forward-looking statements are reasonable; however, undue reliance should not be placed on any forward-looking statements, which are based on current expectations. All written and oral forward-looking statements attributable to us or persons acting on our behalf are qualified in their entirety by these cautionary statements. Further, forward-looking statements speak only as of the date they are made, and we undertake no obligation to update or revise forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time unless required by law.

**ITEM 1B. *UNRESOLVED STAFF COMMENTS***

None.

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**ITEM 2. *PROPERTIES***

We have ten family entertainment resorts in which we own an equity interest that are currently operating and one additional resort that is under construction. Unless otherwise indicated, we own a 100% fee interest in these properties. We are organized into a single operating division. Within that operating division, we have three reportable segments in 2008:

- resort ownership/operation, and
- resort third-party management, and
- condominium sales-revenues.

The properties listed below are included in either our Resort Ownership/Operation segment or our Resort Third-Party Management segment.

Information on our properties included in our Resort Third-Party Management segment is as follows:

Great Wolf Lodge of Wisconsin Dells is located on 16 acres in Wisconsin Dells, Wisconsin, all of which have been developed. This property is owned by a joint venture of which we have a 30.32% minority interest and CNL Lifestyle Properties, Inc. has a 69.68% majority interest.

Great Wolf Lodge of Sandusky is located on 15 acres in Sandusky, Ohio, all of which have been developed. This property is owned by a joint venture of which we have a 30.32% minority interest and CNL Lifestyle Properties, Inc. has a 69.68% majority interest.

Great Wolf Lodge of Grand Mound is located on 39 leased acres in Grand Mound, Washington. This property is owned by a joint venture of which we have a 49% minority interest and The Confederated Tribes of the Chehalis Reservation has a 51% majority interest.

Information on our properties included in our Resort Ownership/Operation segment is as follows:

Great Wolf Lodge of Traverse City is located on 48 acres in Traverse City, Michigan, of which 27 acres have been developed and 21 acres remain undeveloped.

Great Wolf Lodge of Kansas City is located on 17 acres in Kansas City, Kansas, all of which have been developed.

Blue Harbor Resort of Sheboygan is located on 12 leased acres in Sheboygan, Wisconsin, all of which have been developed.

Great Wolf Lodge of Williamsburg is located on 83 acres in Williamsburg, Virginia, of which 37 acres have been developed and 46 acres remain undeveloped.

Great Wolf Lodge of the Pocono Mountains is located on 95 acres in Pocono Township, near Stroudsburg, Pennsylvania, of which 45 acres are developed and 50 acres remain undeveloped.

Great Wolf Lodge of Mason is located on 39 acres in Mason, Ohio. All 39 acres of this property are developed.



Great Wolf Lodge of Grapevine is located on 51 acres in Grapevine, Texas, of which 30 acres are developed and 21 acres remain undeveloped.

Great Wolf Lodge of Concord, which is under construction, is located on 37 acres in Concord, North Carolina, of which 34 acres are being developed and 3 acres may be subdivided and developed separately.

For additional information regarding our resort properties see Item 1. Business Operating Properties and Item 1. Business Properties Under Construction above.

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.

**Table of Contents****ITEM 3. LEGAL PROCEEDINGS**

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

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

We did not submit any matters to a vote of security holder during the fourth quarter of 2008.

**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is listed on the NASDAQ Global Market under the symbol WOLF. The following table sets forth, for the periods indicated, the high and low sales prices per share for our common stock.

	<b>Stock Price</b>	
	<b>High</b>	<b>Low</b>
Fiscal 2007:		
First Quarter	\$ 14.73	\$ 12.91
Second Quarter	\$ 15.16	\$ 12.15
Third Quarter	\$ 15.85	\$ 12.27
Fourth Quarter	\$ 13.46	\$ 9.51
Fiscal 2008:		
First Quarter	\$ 9.94	\$ 6.29
Second Quarter	\$ 8.38	\$ 4.34
Third Quarter	\$ 6.40	\$ 3.00
Fourth Quarter	\$ 3.80	\$ 0.61
Fiscal 2009:		
First Quarter through March 3, 2009	\$ 3.05	\$ 1.50

As of February 27, 2009, there were approximately 183 record holders of our common stock.

The issuance described below were exempt from registration under the Securities Act, pursuant to Section 4(2) of the Securities Act and Regulation D promulgated thereunder as transactions by an issuer not involving a public offering.

In June 2007 we completed a private offering of \$28,125 of trust preferred securities (TPS) through Great Wolf Capital Trust III (Trust III), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.90% through June 2012 and then floats at LIBOR plus a spread of 300 basis points thereafter. The securities mature in June 2017 and are callable at no premium after June 2012. In addition, we invested \$870 in the Trust's common securities, representing 3% of the total capitalization of Trust III. Trust III used the proceeds of the offering and our investment to purchase from us \$28,995 of our junior subordinated debentures with payment terms that mirror the distribution terms of the trust securities. The costs of the TPS offering totaled \$932, including \$870 of underwriting commissions and expenses and \$62 of costs incurred directly by

Trust III. Trust III paid these costs utilizing an investment from us. These costs are being amortized over a 10-year period. The proceeds from our debenture sales, net of the costs of the TPS offering and our investment in Trust III, were \$27,193.

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**Dividend Policy**

We have never declared or paid any cash dividends on our capital stock, and we do not anticipate paying cash dividends in the foreseeable future. We currently intend to retain our earnings, if any, for future growth. Future dividends on our common stock, if any, will be at the discretion of our board of directors and will depend on, among other things, our operations, capital requirements and surplus, general financial condition, contractual restrictions and such other factors as our board of directors may deem relevant.

**Performance Graph**

This performance graph shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any of our filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended.

The following graph depicts a comparison of our total return to shareholders from December 20, 2004 (the date of our IPO) through December 31, 2008, relative to the performance of (i) the NASDAQ 100 Index, (ii) the Russell 2000 Index and (iii) the Dow Jones U.S. Hotel Index. All indices shown in the graph assume an investment of \$100 on December 20, 2004 and the reinvestment of dividends paid since that date. We have never paid cash dividends on our common stock. The stock price performance shown in the graph is not necessarily indicative of future price performance.

**Securities Authorized for Issuance Under Equity Compensation Plans**

This information is hereby incorporated by reference to our 2009 Proxy Statement (under the heading Equity Compensation Plan Information ).

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**ITEM 6. *SELECTED FINANCIAL DATA***

The following table sets forth selected consolidated financial and operating data on a historical basis for Great Wolf Resorts. The Predecessor was the predecessor accounting entity to Great Wolf Resorts. We have not presented historical information for Great Wolf Resorts prior to December 20, 2004, the date on which we completed our IPO, because we did not have any material corporate operating activity during the period from our formation until the completion of our IPO.

**Great Wolf Resorts Financial Information**

Great Wolf Resorts consolidated financial information includes:

- our subsidiary that provides resort development and management services and licenses certain intellectual property;
- our Traverse City, Kansas City, Sheboygan, Williamsburg, Pocono Mountains, Mason and Grapevine operating resorts;
- for all periods prior to October 2005, the Wisconsin Dells and Sandusky resorts;
- equity interests in resorts in which we have ownership interests but which we do not consolidate; and
- our resort that is under construction which we will consolidate.

**Predecessor Financial Information**

The Predecessor's combined historical financial information included the following:

- The Great Lakes Companies, Inc. (GLC) and its consolidated subsidiaries, including development of, ownership interests in, and management contracts with respect to, resorts and certain non-resort hotels and multifamily housing development and management assets;
- the entities that owned our Traverse City, Kansas City and Sheboygan operating resorts; and
- the entities that owned our Williamsburg and Pocono Mountains resorts that were under construction.

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

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

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The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

	<b>Year Ended December 31, 2008 Great Wolf Resorts, Inc.</b>	<b>Year Ended December 31, 2007 Great Wolf Resorts, Inc.</b>	<b>Year Ended December 31, 2006 Great Wolf Resorts, Inc.</b>	<b>Year Ended December 31, 2005 Great Wolf Resorts, Inc.</b>	<b>December 21, 2004- December 31, 2004 Great Wolf Resorts, Inc.</b>	<b>January 1, 2004- December 20, 2004 Predecessor</b>
<b>(Dollars in thousands, except per share amounts)</b>						
<b>Statement of Operations and Comprehensive Loss:</b>						
Revenues:						
Rooms	\$ 143,395	\$ 112,261	\$ 87,775	\$ 73,207	\$ 3,261	\$ 31,438
Food, beverage and other	74,173	56,673	43,137	36,846	1,289	16,110
Sales of condominiums				25,862		
Management and other fees	2,798	2,855	2,087	494	79	3,157
Management and other fees-affiliates	5,346	4,314	3,729	482		
Other revenue from managed properties(1)	19,826	11,477	11,920	2,524		14,553
<b>Total revenues</b>	<b>245,538</b>	<b>187,580</b>	<b>148,648</b>	<b>139,415</b>	<b>4,629</b>	<b>65,258</b>
Operating expenses by department:						
Rooms	20,134	15,716	11,914	10,944	298	4,917
Food, beverage and other	59,949	48,300	35,923	31,407	958	13,678
Other operating expenses:						
Selling, general and administrative	51,902	47,915	41,421	26,894	7,372	18,613
Property operating costs	37,086	30,555	23,217	24,798	295	8,810
Depreciation and amortization	46,081	36,372	25,903	26,248	1,897	12,925
Costs of sales of condominiums				16,780		
Impairment loss on investment in affiliates	18,777					

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Goodwill impairment	17,430		50,975			
Loss on disposition of property	19	128	1,066	26,161		
Other expenses from managed properties(1)	19,826	11,477	11,920	2,524		14,553
Total operating expenses	271,204	190,463	202,339	165,756	10,820	73,496
Net operating loss	(25,666)	(2,883)	(53,691)	(26,341)	(6,191)	(8,238)
Investment income affiliates	(2,187)	(667)				
Interest income	(1,424)	(2,758)	(3,105)	(1,623)	(66)	(224)
Interest expense	27,277	14,887	7,169	6,728	280	6,748
Gain on sale of investments and securities						(1,653)
Interest on mandatorily redeemable shares						1,761
Loss before income taxes, minority interests, and equity in unconsolidated affiliates	(49,332)	(14,345)	(57,755)	(31,446)	(6,405)	(14,870)
Income tax benefit	(11,956)	(5,859)	(8,764)	(7,199)	(2,563)	
Minority interests, net of tax		(452)	(502)	(4)		
Equity in unconsolidated affiliates, net of tax	3,349	1,547	761	170		
Loss from continuing operations	(40,725)	(9,581)	(49,250)	(24,413)	(3,842)	(14,870)
Income from discontinued operations						(1,928)
Net loss	\$ (40,725)	\$ (9,581)	\$ (49,250)	\$ (24,413)	\$ (3,842)	\$ (12,942)
Other comprehensive loss, net of tax:						
Unrealized (gain) loss on interest rate swaps	(387)	387				
Comprehensive loss	\$ (40,338)	\$ (9,968)	\$ (49,250)	\$ (24,413)	\$ (3,842)	\$ (12,942)
Basic loss per share	\$ (1.32)	\$ (0.31)	\$ (1.63)	\$ (0.81)	\$ (0.13)	
Diluted loss per share	\$ (1.32)	\$ (0.31)	\$ (1.63)	\$ (0.81)	\$ (0.13)	
	30,827,860(2)	30,533,249(2)	30,299,647(2)	30,134,146(2)	30,132,896(2)	

Weighted average common shares outstanding	Basic					
Diluted		30,827,860(2)	30,533,249(2)	30,299,647(2)	30,134,146(2)	30,132,896(2)



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	December 21,					
Year Ended December 31, 2008 Great Wolf Resorts, Inc.	Year Ended December 31, 2007 Great Wolf Resorts, Inc.	Year Ended December 31, 2006 Great Wolf Resorts, Inc.	Year Ended December 31, 2005 Great Wolf Resorts, Inc.	Year Ended December 31, 2004- 2004 Great Wolf Resorts, Inc.	2004- December 31, 2004 Great Wolf Resorts, Inc.	January 1, 2004- December 20, 2004 Predecessor
(Dollars in thousands, except per share amounts)						
<b>Cash Flows:</b>						
Cash flows from:						
Operating activities	\$ 33,534	\$ 29,751	\$ 29,723	\$ 17,788	\$ 762	\$ 3,637
Investing activities	(144,612)	(213,867)	(107,123)	(65,496)	(97,583)	(64,472)
Financing activities	106,712	105,935	119,396	23,081	172,151	61,424
<b>Balance Sheet Data (end of period):</b>						
Total assets	\$ 840,061	\$ 770,805	\$ 683,439	\$ 605,526	\$ 622,025	
Total debt	507,051	396,302	289,389	168,328	142,665	
<b>Non-GAAP financial Measures:</b>						
EBITDA	\$ 18,181(3)	\$ 32,305(3)	\$ (28,221)(3)	\$ (369)(3)	\$ (4,294)	\$ 6,507

- (1) Reflects reimbursement of payroll, benefits and costs related to the operations of properties managed by us in 2005-2008 and the Predecessor in 2004.
- (2) Included in the total shares outstanding of our common stock are 11,765 shares (in 2008) and 129,412 shares (in 2004-2007) held in a trust that holds the assets to pay obligations under our deferred compensation plan. Under applicable accounting rules, the shares of common stock held in that trust are treated as treasury stock for purposes of our earnings per share computations and are therefore excluded from the basic and diluted earnings per share calculations.
- (3) See reconciliation to net loss in Management's Discussion and Analysis of Financial Condition and Results of Operation Non-GAAP Financial Measures.

**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Where appropriate, the following discussion includes analysis of the effects of our IPO, the Formation Transactions and related refinancing transactions and certain other transactions. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in Item 1A of this Annual Report on Form 10-K report entitled Forward-Looking Statements. Certain risk factors may cause our actual results, performance or achievements to differ materially from those expressed or implied by the following discussion. For a discussion of such risk factors,*

*see the sections in Item 1A of this Annual Report on Form 10-K report entitled Risk Factors and Forward-Looking Statements. All dollar amounts in this discussion, except for per share data and operating statistics, are in thousands.*

## **Overview**

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

*Business.* We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to 600 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge and Blue Harbor Resort brand names. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms, which includes admission

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to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants and snack bars, an ice cream shop and confectionery, Cub Club, full-service spa, kids spa, game arcade, gift shops, MagiQuest (an interactive, live-action, fantasy adventure game), minigolf, gr8\_space and meeting space. We also generate revenues from licensing arrangements, resort management fees, development fees, construction management fees and other fees with respect to properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of operating resorts and 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).

	<b>Ownership Percentage</b>	<b>Opened/ Opening</b>	<b>Number of Guest Suites</b>	<b>Number of Condo Units(1)</b>	<b>Indoor Entertainment Area(2) (Approx. ft<sup>2</sup>)</b>
<b>Existing Resorts:</b>					
Wisconsin Dells, WI(3)	30.32%	1997	308	77	102,000
Sandusky, OH(3)	30.32%	2001	271		41,000
Traverse City, MI	100%	2003	280		57,000
Kansas City, KS	100%	2003	281		57,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		87,000
Pocono Mountains, PA	100%	2005	401		101,000
Niagara Falls, ONT(4)		2006	406		104,000
Mason, OH	100%	2006	401		105,000
Grapevine, TX(5)	100%	2007	605		110,000
Grand Mound, WA(6)	49%	2008	398		74,000
<b>Resort Under Construction:</b>					
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.

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*Industry Trends.* We operate in the family entertainment resort segment of the travel and leisure industry. The concept of a family entertainment resort with an indoor waterpark was first introduced to the United States in Wisconsin Dells, Wisconsin, and has evolved there since 1987. In an effort to boost occupancy and daily rates, as well as capture off-season demand, hotel operators in the Wisconsin Dells market began expanding indoor pools and adding waterslides and other water-based attractions to existing hotels and resorts. The success of these efforts prompted several local operators to build new, larger destination resorts based primarily on the concept.

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

While no standard industry definition for a family entertainment resort featuring an indoor waterpark has developed, we generally consider resorts with at least 200 rooms featuring indoor waterparks larger than 25,000 square feet, as well as a variety of water slides and other water-based attractions, to be competitive with our resorts. A recent Hotel & Leisure Advisors, LLC (H&LA) survey indicates that there are 132 open indoor waterpark resort properties in the United States and Canada. Of the total, 46 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 46 properties, 11 are Great Wolf Resorts properties. The same survey indicated 13 openings of indoor waterpark resorts projected for 2009. The 2009 openings include only two indoor waterpark destination resorts, one of which is our property in Concord, North Carolina.

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

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

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

In attempting to execute our internal and external growth strategies, we are subject to a variety of business challenges and risks. These challenges include: development and licensing of properties; increases in costs of constructing,

operating and maintaining our resorts; competition from other entertainment companies, both within and outside our industry segment; and external economic risks, including family vacation patterns and trends. We seek to meet these challenges by providing sufficient management oversight to site selection, development and resort operations; concentrating on growing and strengthening awareness of our brand and demand for our resorts; and maintaining our focus on safety.

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Our business model is highly dependent on consumer spending, and a vacation experience at one of our resorts is a discretionary expenditure for a family. Over the past 18 months, the slowing U.S. economy has led to a decrease in available credit for consumers and a related decrease in consumer discretionary spending. This trend continued during 2008 as consumers experienced several negative economic impacts, including:

- record prices for many commodities, most notably oil, that resulted in increased costs for gasoline and other consumer staples;
- severe turbulence in the banking and lending sectors, which has led to a general lessening of the availability of credit to consumers;
- an increased national unemployment rate;
- a continuing decline in the national average of home prices; and
- high volatility in the stock market that led to substantial declines in leading market averages and aggregate household savings.

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

We believe that our Traverse City and Sandusky resorts have been and will continue to be affected by especially adverse general economic circumstances in the Michigan/Northern Ohio region (such as bankruptcies of several major companies and/or large announced layoffs by major employers) and increased competition that has occurred in these markets over the past three years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts' largest origin of customers. We believe the adverse general economic circumstances in the region have negatively impacted overall discretionary consumer spending in that region over the past few years and may continue to do so going forward. Although we have taken steps to reduce our operating costs at these resorts, we believe the general regional economic downturn has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts. As discussed further below, due to the continued adverse current and expected market conditions for our Sandusky resort, in 2008 we recorded an \$18,777 impairment loss related to our interest in the joint venture that owns the Wisconsin Dells and Sandusky resorts.

Our Wisconsin Dells property has been significantly impacted by the abundance of competing indoor waterpark resorts in that market. The Wisconsin Dells market has approximately 16 indoor waterpark resorts that compete with us. We believe this large number of competing properties in a relatively small tourist destination location has and may continue to have an impact on the operating performance of our Wisconsin Dells resort. As discussed in *Critical Accounting Policies and Estimates* below, due to the continued adverse current and expected market conditions for our Wisconsin Dells resort, in 2008 we recorded an \$18,777 impairment loss related to our interest in the joint venture that owns the Wisconsin Dells and Sandusky resorts.

We have experienced a much slower-than-expected occupancy ramp-up and lower-than-expected average daily room rates at our Sheboygan, Wisconsin property since its opening in 2004. We believe this operating weakness has been primarily attributable to the fact that the overall development of Sheboygan as a tourist destination continues to lag materially behind our initial expectations. We believe this has materially impacted

and will likely continue to impact the consumer demand for our indoor waterpark resort in that market and the operations of the resort.

Our Mason resort opened its first phase in December 2006 and is ramping up more slowly than we had projected, which we believe is due, in part, to the opening of competitive properties in the region and to perceived operating issues at the resort in early 2007.



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

Although the ultimate effect on our external growth strategy of the current credit environment is difficult to predict with certainty, we believe that the availability of construction financing may be lessened in the future and that terms of construction financing may be less favorable than we have seen over the past few years. We believe we may be able to continue to obtain construction financing sufficient to execute development strategies; however, the more difficult credit market environment is likely to continue at least through 2009, and possibly beyond.

*Revenue and Key Performance Indicators.* We seek to generate positive cash flows and maximize our return on invested capital from each of our owned resorts. Our rooms revenue represents sales to guests of room nights at our resorts and is the largest contributor to our cash flows and profitability. Rooms revenue accounted for approximately 66% of our total resort revenue for the year ended December 31, 2008. We employ sales and marketing efforts to increase overall demand for rooms at our resorts. We seek to optimize the relationship between room rates and occupancies through the use of yield management techniques and computer software that attempt to project demand in order to selectively increase room rates during peak demand. These techniques are designed to assist us in managing our higher occupancy nights to achieve maximum rooms revenue and include such practices as:

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

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

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

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

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

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

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

Occupancy;

Average daily room rate, or ADR;

Revenue per available room, or RevPAR;

Total revenue per available room, or Total RevPAR;

Total revenue per occupied room, or Total RevPOR; and

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

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

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

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

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RevPAR is the product of occupancy and ADR.

Total RevPAR and Total RevPOR are defined as follows:

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

Total RevPOR is calculated by dividing total revenue by total occupied rooms.

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. While ADR and RevPAR only include rooms revenue, Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the year ended December 31, 2008, approximately 34% of our total resort revenues consisted of non-rooms revenue.

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

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

**Critical Accounting Policies and Estimates**

Our consolidated financial statements are prepared in accordance with GAAP in the United States. The application of GAAP requires us to make estimates and assumptions that affect the reported values of assets and liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. The preparation of our consolidated financial statements and our financial reporting process involve the use of accounting estimates based on our current judgments. Certain accounting estimates are particularly sensitive because of their significance to our consolidated financial statements and because of the possibility that future events affecting them may differ from our current judgments.

*Investments in Property and Equipment.* We record investments in property and equipment at cost. Improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance are charged to expense as incurred.

Depreciation and amortization are recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	20-40 years
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Fixtures and equipment, including waterpark equipment

5-15 years

We are required to make subjective assessments as to these useful lives for purposes of determining the amount of depreciation and amortization to record annually with respect to our investments in property and equipment. These assessments have a direct impact on our net income because if we were to shorten the expected useful lives of our investments in property and equipment we would depreciate and amortize such investments over fewer years, resulting in more depreciation and amortization expense and lower net income on an annual basis. We periodically review the estimated useful lives we have assigned to our depreciable assets to determine whether those useful lives are reasonable and appropriate.

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When circumstances, such as adverse market conditions, indicate the carrying values of a long-lived asset may be impaired, we perform an analysis to review the recoverability of the asset's carrying value. We make estimates of the undiscounted cash flows (excluding interest charges) from the expected future operations of the asset. These estimates consider factors such as expected future operating income, operating trends and prospects, as well as the effects of demand, competition and other factors. If the analysis indicates that the carrying value is not recoverable from future cash flows, an impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value. Any impairment losses are recorded as operating expenses, which reduce net income. We had no impairment losses related to long-lived assets in any of the periods presented.

***Carrying Values of Goodwill, Intangible Assets and Investment in Affiliates.***

*Goodwill* We are required to assess goodwill for impairment annually, or more frequently if circumstances indicate impairment may have occurred. To test goodwill for impairment, we compare the fair value of the individual resort to which the goodwill is assigned to the carrying value of that resort. To estimate the resort's fair value we used a discounted cash flow model. Each of our resorts is considered a reporting unit. If the analysis indicates that the fair value is less than the carrying value of the individual resort, we compare the implied fair value of the resort's goodwill with the carrying amount of that goodwill. The implied fair value of the goodwill is determined by allocating the fair value of the individual resort to all the assets and liabilities of that resort as if it had been acquired in a business combination at the assessment date. The excess of the fair value of the individual resort over the amounts assigned to its assets and liabilities is the implied fair value of the goodwill. If the implied fair value of the goodwill is less than its carrying value, an impairment loss is recognized. Any impairment losses are recorded as operating expenses, which reduce net income. Our assessment of the fair value is dependent on the operating results of the resorts. Future adverse changes in the hospitality and lodging industry, market conditions or poor operating results of the underlying real estate assets could result in future losses or the inability to recover the carrying value of goodwill.

We originally recorded on our consolidated balance sheet approximately \$129,086 of goodwill. Also, in conjunction with our purchase of a minority owner's 15% equity interest in our Mason resort, we recorded approximately \$1,409 of goodwill in 2007. In 2005 we wrote off \$62,091 of goodwill in conjunction with the sale of 70% interests in our Wisconsin Dells and Sandusky resorts. In 2006 we wrote off \$50,975 of goodwill on our Traverse City and Blue Harbor resorts as the implied fair value of the goodwill, as discussed above, was deemed less than the carrying value. In the fourth quarter of 2008, as part of our annual impairment assessment of our remaining goodwill on our Kansas City and Mason resorts, we considered various pieces of information, including:

2009 budget information;

The impact of the December holiday season on overall 2008 financial results;

Full year 2008 financial results for each of the resorts;

Impact of/changes in the economy since the severe economic disruptions of 2008; and

Forecasted booking trends for 2009.

We required all of this information to complete our impairment assessments. We concluded that the implied fair value of the goodwill, as discussed above, on our Kansas City and Mason resorts was less than the carrying value of those goodwill amounts for each of the resorts. As a result, we wrote off \$17,430 of goodwill on our Kansas City and Mason resorts in the 2008 fourth quarter. As of December 31, 2008, all goodwill has been written off.

*Intangible Assets* When circumstances, such as adverse market conditions, indicate that the carrying value of an indefinite-lived intangible asset may be impaired, we perform an analysis to review the recoverability of the asset's carrying value. To test indefinite-lived intangible assets for impairment, we compare the fair value of the intangible asset with its carrying amount. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized. Any impairment losses are recorded as

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operating expenses, which reduce net income. Future adverse changes in the hospitality and lodging industry, market conditions or poor operating results of the underlying real estate assets could result in future losses or the inability to recover the carrying value of these intangibles. We had no impairment losses related to intangible assets in any of the periods presented.

Our consolidated balance sheet reflects approximately \$23,829 of intangible assets related to our Great Wolf Lodge brand name. This brand name intangible asset has an indefinite life.

*Investments in Affiliates* When circumstances, such as adverse market conditions, indicate that the carrying value of our investments in affiliates may be impaired, we perform an analysis to review the recoverability of the asset's carrying value. To test investment in affiliates for impairment, we compare the fair value of the investment in affiliates with its carrying amount. If the fair value of the investment in affiliates is less than its carrying value, an impairment loss is recognized. Any impairment losses are recorded as operating expenses, which reduce net income. Future adverse changes in the hospitality and lodging industry, market conditions or poor operating results of the underlying investments could result in future losses or the inability to recover the carrying value of these assets.

In the fourth quarter of 2008, we concluded that continued adverse current and expected market conditions for our Wisconsin Dells and Sandusky resorts indicated that our minority investment in the joint venture that owns these resorts may be impaired. Accordingly, we conducted an analysis, as described above, to assess the recoverability of the carrying value of our investments in that affiliate. As part of that analysis, we considered various pieces of information, including:

2009 budget information;

The impact of the December holiday season on overall 2008 financial results;

The relative success of operational adjustments implemented throughout 2008 to improve the resorts operations;

Full year 2008 financial results for each of the resorts;

Impact of/changes in the economy since the severe economic disruptions of 2008; and

Forecasted booking trends for 2009.

We required all of this information to complete our impairment analysis. When we had obtained and completed our evaluation of this information in early 2009, we concluded that the fair value of our investment in this joint venture, as discussed above, was less than its carrying value. As a result, we recorded an \$18,777 impairment loss related to our 30.32% interest in the joint venture that owns the Wisconsin Dells and Sandusky resorts, as the implied fair value of the investment, as discussed above, was less than its carrying value.

We do not believe current circumstances indicate that the carrying value of our minority investment in the joint venture that owns our Grand Mound resort may be impaired. The carrying value in this joint venture is \$5,686 as of December 31, 2008. The carrying value of our 49% interest in our joint venture that owns the Great Wolf Lodge in Grand Mound is \$38,169 as of December 31, 2008.

*Accounting for Income Taxes.* We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the

differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

Significant management judgment is required in determining our provision or benefit for income taxes, our deferred tax assets and liabilities, and any valuation allowance recorded against our net deferred tax assets. We record net deferred tax assets (primarily resulting from net operating loss carryforwards) to the extent we



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believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income (that could result from a sale of one or more of our resorts where there is a sales price in excess of tax basis), tax planning strategies and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes. Conversely, in the event we were to determine that we would not be able to realize our deferred tax assets, we would establish a valuation allowance which would increase the provision for income taxes.

As of December 31, 2008, we had net operating loss carryforwards of approximately \$43,890 and \$43,603 for federal and state income tax purposes, respectively. These federal and state carryforwards begin expiring in 2024 and 2014, respectively. Based on our analysis, we believe all but \$6,620 of the net operating loss carryforwards will be realized; therefore we have established a valuation allowance as of December 31, 2008 of \$366, the tax effected benefit of that operating loss carryforward. The valuation allowance is included in a deferred tax asset, and classified in Other Assets on the balance sheet.

## **New Accounting Pronouncements**

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of SFAS 157 in 2008 did not have an impact on our results of operations or financial position. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Partial Deferral of the Effective Date of Statement 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for non-financial assets and liabilities that are not measured or disclosed on a recurring basis to fiscal years beginning after November 15, 2008. We are currently evaluating the impact of the adoption of FSP 157-2 and do not expect it to have a material impact on our financial statements.

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

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

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures for derivative and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of the adoption of this statement and do not expect it to have a material impact on our financial statements.

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

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of generally accepted accounting principles and provides a framework, or hierarchy, for selecting the principles to be used in preparing financial statements for non-governmental entities in conformity with GAAP. This statement was effective on November 15, 2008. The adoption of this statement did not have a material impact on our financial statements.

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

## **Non-GAAP Financial Measures**

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

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

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

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

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

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

Our management uses EBITDA:

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

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

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

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

Using a measure such as EBITDA has material limitations. These limitations include the difficulty associated with comparing results among companies and the inability to analyze certain significant items, including depreciation and interest expense, which directly affect our net income or loss. Management

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compensates for these limitations by considering the economic effect of the excluded expense items independently, as well as in connection with its analysis of net income.

The following table reconciles net loss to EBITDA for the periods presented:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net loss	\$ (40,725)	\$ (9,581)	\$ (49,250)
Adjustments:			
Interest expense, net of interest income	25,853	12,129	4,064
Income tax benefit	(13,028)	(6,615)	(8,938)
Depreciation and amortization	46,081	36,372	25,903
<b>EBITDA</b>	<b>\$ 18,181</b>	<b>\$ 32,305</b>	<b>\$ (28,221)</b>

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

Our results of operations for the years ended December 31, 2008 and 2007 are not directly comparable primarily due to the opening of our Great Wolf Lodge resort in Grapevine, Texas in December 2007.

***Great Wolf Resorts Financial Information***

Our financial information includes:

- our subsidiary entity that provides resort development and management/licensing services;
- our Traverse City, Kansas City, Sheboygan, Williamsburg, Pocono Mountains, Mason and Grapevine operating resorts;
- equity interests in resorts in which we have ownership interests but which we do not consolidate; and
- our resort that is under construction which we will consolidate.

*Revenues.* Our revenues consist of:

- lodging revenue, which includes rooms, food and beverage, and other department revenues from our resorts;
- management fee and other revenue from resorts, which includes fees received under our management, license, development and construction management agreements; and
- other revenue from managed properties. We employ the staff at our managed properties (except for the Niagara Falls resort). Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the operations of the managed properties. EITF 01-14, Income Statement Characteristics of Reimbursements for Out-of-Pocket Expenses, establishes standards for accounting for

reimbursable expenses in our statements of operations. Under this pronouncement, the reimbursement of payroll, benefits and costs is recorded as other revenue from managed properties on our statements of operations, with a corresponding expense recorded as other expenses from managed properties.

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

Our other operating expenses include the following items:

selling, general and administrative expenses, which are associated with the operations and management of resorts and which consist primarily of expenses such as corporate payroll and related benefits,

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operations management, sales and marketing, finance, legal, information technology support, human resources and other support services, as well as general corporate expenses;

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

depreciation and amortization; and

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

**Year Ended December 31, 2008 compared with Year Ended December 31, 2007**

The following table shows key operating statistics for our resorts for the years ended December 31, 2008 and 2007:

	<b>All Properties(a)</b>		<b>Same Store Comparison(b)</b>		
	<b>2008</b>	<b>2008</b>	<b>2007</b>	<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>
<b>Occupancy</b>	62.9%	61.9%	61.5%	N/A	0.7%
<b>ADR</b>	\$ 249.92	\$ 243.81	\$ 244.16	\$ (0.35)	(0.1)%
<b>RevPAR</b>	\$ 157.19	\$ 151.02	\$ 150.16	\$ 0.86	0.6%
<b>Total RevPOR</b>	\$ 383.75	\$ 369.61	\$ 370.77	\$ (1.16)	(0.3)%
<b>Total RevPAR</b>	\$ 241.36	\$ 228.95	\$ 228.02	\$ 0.93	0.4%

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

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

In December 2007 we opened our resort in Grapevine, Texas. As a result, total revenue, rooms revenue and other revenue for the years ended December 31, 2008 and 2007 are not directly comparable.

The increases in same store occupancy and RevPAR were due in part to an increase in the number of rooms sold for group business (as opposed to leisure guests) in 2008 as compared to 2007. As we typically charge lower room rates for group rooms as compared to leisure, this resulted in a decrease in ADR in 2008 as compared to 2007.

Presented below are selected amounts from our consolidated statements of operations for the years ended December 31, 2008 and 2007:

	<b>2008</b>	<b>2007</b>	<b>Increase (Decrease)</b>
Revenues	\$ 245,538	\$ 187,580	\$ 57,958
Operating expenses:			

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Departmental operating expenses	80,083	64,016	16,067
Selling, general and administrative	51,902	47,915	3,987
Property operating costs	37,086	30,555	6,531
Depreciation and amortization	46,081	36,372	9,709
Impairment loss on investment in affiliates	18,777		18,777
Goodwill impairment	17,430		17,430
Net operating loss	(25,666)	(2,883)	(22,783)
Interest expense, net of interest income	25,853	12,129	13,724
Income tax benefit	(11,956)	(5,859)	(6,097)
Net loss	(40,725)	(9,581)	(31,144)



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*Revenues.* Total revenues increased primarily due to the opening of our Grapevine resort in December 2007; our construction of 104 additional guest suites at our Williamsburg resort that opened in March 2007; and other fees and other revenues from managed properties related to our joint venture with Chehalis at our resort in Grand Mound, Washington.

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

Departmental expenses increased \$16,067 for the year ended December 31, 2008, as compared to the year ended December 31, 2007, due primarily to the opening of our Grapevine resort.

Total selling, general and administrative expenses increased \$3,987 for the year ended December 31, 2008, as compared to the year ended December 31, 2007, due primarily to the opening of our Grapevine resort. This increase was offset by a decrease in corporate selling, general and administrative expenses. Corporate selling, general and administrative expenses decreased due to decreases in bonus expense and restricted stock expense, primarily due to the resignation of two senior officers in 2008; and a decrease in stock option expense, as most options were fully vested as of December 31, 2007.

Total property operating costs (exclusive of opening costs) increased \$9,614 for the year ended December 31, 2008, as compared to the year ended December 31, 2007, due primarily to the opening of our Grapevine resort, as well as increased repairs and maintenance expense and increased utilities expense related to the expansion of our Williamsburg resort. Opening costs related to our resorts were \$6,301 for the year ended December 31, 2008, as compared to \$9,384 for the year ended December 31, 2007.

Total depreciation and amortization increased mainly due to the opening of our Grapevine resort and the expansion of our Williamsburg resort as well as the write off of loan fees of \$615 related to our Williamsburg mortgage loan that we paid off in August 2008. We had no similar loan fee write offs for the year ended December 31, 2007.

For the year ended December 31, 2008, we recorded an aggregate \$18,777 impairment loss related to our 30.32% interest in the joint venture that owns the Wisconsin Dells and Sandusky resorts. There was no similar charge recorded in the year ended December 31, 2007.

For the year ended December 31, 2008, we recorded a goodwill impairment charge of \$17,430 related to our Kansas City and Mason resorts. There was no similar charge recorded in the year ended December 31, 2007.

*Net operating loss.* During the year ended December 31, 2008, we had a net operating loss of \$25,666 as compared to a net operating loss of \$2,883 for the year ended December 31, 2007.

*Net loss.* Net loss increased due to the increase in operating loss of \$22,783 and an increase in net interest expense of \$13,724 mainly due to interest expense on mortgage debt related to our Williamsburg and Grapevine resorts, and having less interest expense capitalized to development projects in 2008 as compared to 2007, due to fewer development projects in process in 2008 as compared to 2007.

These increases were partially offset by an increase of \$6,097 in income tax benefit recorded for the year ended December 31, 2008 as compared to the year ended December 31, 2007.

**Table of Contents****Year Ended December 31, 2007 compared with Year Ended December 31, 2006**

The following table shows key operating statistics for our resorts for the years ended December 31, 2008 and 2006:

	All Properties(a)		Same Store Comparison(b)		
	2007	2007	2006	Increase (Decrease)	
				\$	%
<b>Occupancy</b>	61.5%	62.5%	64.1%	N/A	(2.5)%
<b>ADR</b>	\$ 244.16	\$ 241.56	\$ 234.21	\$ 7.35	3.1%
<b>RevPAR</b>	\$ 150.16	\$ 150.92	\$ 150.24	\$ 0.68	0.5%
<b>Total RevPOR</b>	\$ 370.77	\$ 363.65	\$ 351.34	\$ 12.31	3.5%
<b>Total RevPAR</b>	\$ 228.02	\$ 227.20	\$ 225.37	\$ 1.83	0.8%

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

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

In December 2007 and in December 2006 we opened our resorts in Grapevine, Texas and Mason, Ohio, respectively. As a result, total revenue, rooms revenue and other revenue for the years ended December 31, 2007 and 2006 are not directly comparable.

Presented below are selected amounts from our consolidated statements of operations for the years ended December 31, 2007 and 2006:

	2007	2006	Increase (Decrease)
Revenues	\$ 187,580	\$ 148,648	\$ 38,932
Operating expenses:			
Departmental operating expenses	64,016	47,837	16,179
Selling, general and administrative	47,915	41,421	6,494
Property operating costs	30,555	23,217	7,338
Depreciation and amortization	36,372	25,903	10,469
Goodwill impairment		50,975	(50,975)
Loss on disposition of property	128	1,066	(938)
Net operating loss	(2,883)	(53,691)	50,808
Interest expense, net of interest income	12,129	4,064	8,065
Income tax benefit	(5,859)	(8,764)	2,905
Net loss	(9,581)	(49,250)	39,669

*Revenues.* Total revenues increased primarily due to the opening of our Grapevine and Mason resorts in December 2007 and December 2006, respectively; our construction of 104 additional guest suites at our Williamsburg resort that opened in March 2007; and increased marketing efforts at our Pocono Mountains resort. Revenues increased at these resorts by \$40,590 for the year ended December 31, 2007, as compared to the year ended December 31, 2006.

*Operating expenses.* Total operating expenses increased primarily due to the opening of our Grapevine and Mason resorts in December 2007 and December 2006, respectively; our construction of 104 additional guest suites at our Williamsburg resort that opened in March 2007; and increased marketing efforts at our Pocono Mountains resort.

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Departmental expenses increased for the Williamsburg, Pocono Mountains, Mason and Grapevine resorts by \$16,814 for the year ended December 31, 2007, as compared to the year ended December 31, 2006, due to the opening of our Grapevine and Mason resorts, the expansion of our Williamsburg resort and increased revenues at our Pocono Mountains resort.

Total selling, general and administrative expenses increased by \$6,494 due primarily to the opening of our Grapevine and Mason resorts, the expansion of our Williamsburg resort and increased marketing efforts at our Pocono Mountains resort.

Total property operating costs (exclusive of opening costs) increased \$5,349 for the year ended December 31, 2007, as compared to the year ended December 31, 2006, due primarily to the opening of our Grapevine and Mason resorts, as well as increased repairs and maintenance expense and increased utilities expense related to the expansion of our Williamsburg resort and amenity additions to several of our other resorts. Opening costs related to our resorts were \$9,384 for the year ended December 31, 2007, as compared to \$7,395 for the year ended December 31, 2006.

Total depreciation and amortization increased mainly due to the opening of our Grapevine and Mason resorts and the expansion at our Williamsburg resort. The total increase in depreciation and amortization at these three resorts was \$9,331 during the year ended December 31, 2007 as compared to the year ended December 31, 2006.

For the year ended December 31, 2006 we recorded a goodwill impairment charge of \$50,975 related to our Traverse City and Sheboygan resorts, as the implied fair value of the goodwill was deemed less than the carrying value. There was no similar charge recorded in the year ended December 31, 2007.

Loss on disposition of property of \$1,066 during the year ended December 31, 2006 primarily relates to finalization of the accounting for the sale of 70% of our equity interests in the Wisconsin Dells and Sandusky resorts in October 2005.

*Net operating loss.* During the year ended December 31, 2007, we had a net operating loss of \$2,883 as compared to a net operating loss of \$53,691 for the year ended December 31, 2006.

*Net loss.* Net loss decreased due to the decrease in operating loss from \$53,691 for the year ended December 31, 2006, to \$2,883 for the year ended December 31, 2007. The net operating loss for the year ended December 31, 2006 included a goodwill impairment charge of \$50,975.

This decrease was partially offset by:

An increase in net interest expense of \$8,065 mainly due to mortgage debt related our Pocono Mountains and Mason resorts, and

A decrease of \$2,905 in income tax benefit recorded for the year ended December 31, 2007 as compared to the year ended December 31, 2006. Our effective tax rate in 2007 was (40.8)% as compared to 2006 of (15.4)% primarily due to the impact of the goodwill impairment charge in 2006.

## **Segments**

We have three reportable segments in 2008 and 2007:

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

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

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

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

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	Year Ended December 31,			Increase (Decrease)	
	2008	2007	2006	2008 - 2007	2007 - 2006
<b>Resort Ownership/Operation</b>					
Revenues	\$ 217,568	\$ 168,934	\$ 130,912	\$ 48,634	\$ 38,022
EBITDA, excluding certain items	33,756	32,179	26,729	1,577	5,450
<b>Resort Third-Party Management</b>					
Revenues	27,970	18,646	17,736	9,324	910
EBITDA, excluding certain items	8,144	7,169	5,817	975	1,352
<b>Condominium Sales</b>					
Revenues					
EBITDA, excluding certain items		(682)	(370)	682	(312)
<b>Other</b>					
Revenues					
EBITDA, excluding certain items	(21,485)	(5,177)	(8,989)	(16,308)	3,812

The Other items in the table above represent corporate-level activities that do not constitute a reportable segment. Total assets at the corporate level primarily consist of cash, our investment in affiliates, and intangibles. In 2008 Resort Ownership/Operation EBITDA includes \$16,021 for a goodwill impairment charge and Other EBITDA includes \$1,409 for a goodwill impairment charge and \$18,777 for the write-down of investment in affiliates. EBITDA, excluding certain items is defined as EBITDA less investment income and equity in unconsolidated affiliates.

**Liquidity and Capital Resources**

As of December 31, 2008, we had total indebtedness of \$507,051, summarized as follows:

Long-Term Debt:	
Traverse City/Kansas City mortgage loan	\$ 70,211
Mason mortgage loan	76,800
Pocono Mountains mortgage loan	96,571
Williamsburg mortgage loan	64,625
Grapevine construction loan	78,709
Concord construction loan	27,594
Junior subordinated debentures	80,545
Other Debt:	
City of Sheboygan bonds	8,493
City of Sheboygan loan	3,503
	\$ 507,051

*Traverse City/Kansas City Mortgage Loan* This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants

under this loan at December 31, 2008.

*Mason Mortgage Loan* This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of December 31, 2008). The loan initially matured in November 30, 2008. On January 23, 2009, the maturity date was extended to November 30, 2009. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. In addition, we have provided the Mason mortgage loan lenders with a

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\$15,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$15,000 principal reduction of the Mason loan over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of majority-owned equity interest in any of our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$15,000 mandatory principal reduction. We were in compliance with all covenants under this loan at December 31, 2008.

*Pocono Mountains Mortgage Loan* This loan is secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in December 2016. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at December 31, 2008.

*Williamsburg Mortgage Loan* In August 2008 we closed on a \$65,000 first mortgage loan secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis points with a minimum rate of 6.25% per annum (effective rate of 6.25% as of December 31, 2008). This loan matures in August 2011 and has a one-year extension available at our option, assuming the property meets an operating performance threshold. The loan has a prepayment fee calculated as 3.50% of the prepaid principal amount for any payments made in the first twelve months of the loan. After twelve months, the loan has no prepayment fees. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at December 31, 2008.

*Grapevine Construction Loan* This loan is secured by our Grapevine resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (effective rate of 3.04% as of December 31, 2008). The loan matures in July 2009 and also has two one-year extensions available at our option, provided that the property meets an operating performance threshold. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at December 31, 2008.

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

*Concord Construction Loan* In April 2008 we closed on a \$63,940 construction loan to fund a portion of the total costs of our Great Wolf Lodge resort under construction in Concord. The four-year loan was potentially expandable to a maximum principal amount of up to \$79,900. The loan bears interest at a floating annual rate of LIBOR plus a spread of 345 basis points during the construction period and LIBOR plus a spread of 310 basis points once the resort is open, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of December 31, 2008). The loan requires interest only payments until the one-year anniversary of the opening date of the property and then requires monthly principal payments based on a 25-year amortization schedule. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. We were in compliance with all covenants under this loan at December 31, 2008. In January 2009, the total commitments under this loan increased from \$63,940 to \$79,900.

*Junior Subordinated Debentures* In March 2005 we completed a private offering of \$50,000 of trust preferred securities (TPS) through Great Wolf Capital Trust I (Trust I), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.80% through March 2015 and



then floats at LIBOR plus a spread of 310 basis points thereafter. The securities mature in March 2035 and are callable at no premium after March 2010. In addition, we invested \$1,500 in Trust I's common securities, representing 3% of the total capitalization of Trust I.

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

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

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

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

Based on the foregoing accounting authority, our consolidated financial statements present the debentures issued to the Trusts as long-term debt. Our investments in the Trusts are accounted as cost investments and are included in other assets on our consolidated balance sheet. For financial reporting purposes, we record interest expense on the corresponding debentures in our condensed consolidated statements of operations.

*City of Sheboygan Bonds* The City of Sheboygan (the City) bonds represent the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In accordance with the provisions of EITF Issue No. 91-10, we have recognized as a liability the obligations for the BANs. We have an obligation to fund certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028, which obligation is indirectly related to the payments by the City on the BANs.

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

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

2009	\$ 81,464
2010	6,485
2011	143,002
2012	29,039

2013	3,675
Thereafter	243,386
Total	\$ 507,051

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***Short-Term Liquidity Requirements***

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

- recurring maintenance, repairs and other operating expenses necessary to properly maintain and operate our resorts;
- debt maturities within the next year;
- property taxes and insurance expenses;
- interest expense and scheduled principal payments on outstanding indebtedness;
- general and administrative expenses; and
- income taxes.

Historically, we have satisfied our short-term liquidity requirements through operating cash flows and cash on hand. We believe that cash provided by our operations, together with cash on hand, will be sufficient to fund our short-term liquidity requirements for working capital, capital expenditures and debt service for the next 12 months, assuming that we are successful in negotiating an additional extension of the maturity date or a refinancing for our Mason mortgage loan that matures in November 2009, as discussed below.

***Long-Term Liquidity Requirements***

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

- scheduled debt maturities;
- costs associated with the development of new resorts;
- renovations, expansions and other non-recurring capital expenditures that need to be made periodically to our resorts; and
- capital contributions and loans to unconsolidated joint ventures.

We expect to meet these needs through existing working capital; cash provided by operations; proceeds from investing activities, including sales of partial or whole ownership interests in certain of our resorts; and proceeds from financing activities, including mortgage financing on properties being developed, additional borrowings under future credit facilities, contributions from joint venture partners, and the issuance of equity instruments, including common stock, or additional or replacement debt, as market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our Mason mortgage loan in the amount of \$76,800 matures in November 2009. We have provided the Mason mortgage loan lenders with a \$15,000 corporate guaranty and cross-collateralization on the our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$15,000 million principal reduction of the Mason loan over the remaining term of the loan. Should there be certain

liquidity-producing events, including the sale of majority-owned equity interest in any of the our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$15,000 mandatory principal reduction. We expect to satisfy the \$15,000 mandatory principal reduction through one of these liquidity-providing events, cash generated by operations, or a combination of these items. We do not currently or project to have sufficient liquidity to repay this loan at its maturity date. Also, given current capital markets conditions, we do not believe we will be able to pursue refinancing the Mason loan with a new lender until late in 2009 at the earliest. In the event we are unable to refinance this loan, we expect to enter into discussions with the lender to obtain a modification allowing us to extend the loan's maturity date. In the event we are unable to obtain such a modification in that circumstance, however, the nonpayment of the remaining principal balance in November 2009 would constitute an event of default under the terms of the mortgage loan. In an event of

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default, interest on the loan would accrue at an annual rate of 500 basis points higher than the normal interest rate on the loan; in addition, the lender would have the right to foreclose on the property.

Our largest long-term expenditures are expected to be for capital expenditures, development of future resorts and capital contributions or loans to joint ventures owning resorts under construction or development. Such expenditures were \$147,652 for the year ended December 31, 2008. We expect to have approximately \$60,262 of such expenditures in 2009. This amount consists primarily of remaining construction costs to complete our Concord resort (scheduled to open in March 2009); remaining construction costs to complete the expansion of our existing Grapevine resort; and recurring maintenance capital expenditures at our existing properties. As discussed above, we expect to meet these requirements through a combination of cash provided by operations, cash on hand, contributions from new joint venture partners, proceeds from investing activities and proceeds from financing activities.

We currently project that the combination of our cash on hand plus cash provided by operations in 2009 will be sufficient to meet the short-term liquidity requirements, as described above. Based on our current projections, however, we do not believe that we will have sufficient excess amounts of cash available in 2009 in order either to begin development of any new resorts following the completion of construction of our Concord resort or to make capital contributions to new joint ventures that may wish to develop a resort that we would license and manage. Also, due to the current state of the capital markets, which is marked by the general unavailability of debt financing for future development, we expect to have no significant expenditures for development of new resorts until we have all equity and debt capital amounts fully committed, including our projected ability to fund our required equity contribution to a project. We believe this may result in our not making any significant expenditures in 2009 for development of new resorts or capital contributions to new joint venture that may develop future resorts.

***Off Balance Sheet Arrangements***

We have two unconsolidated joint venture arrangements at December 31, 2008. We account for our unconsolidated joint ventures using the equity method of accounting.

Our joint venture with CNL Income Properties, Inc. (CNL) owns two resorts, Great Wolf Lodge-Wisconsin Dells, Wisconsin and Great Wolf Lodge-Sandusky, Ohio. We are a limited partner with a 30.32% ownership interest in the CNL joint venture. At December 31, 2008, the joint venture had aggregate outstanding indebtedness to third parties of \$63,000. This loan is a mortgage loan that is non-recourse to us. In December 2008, we recorded an \$18,777 impairment loss related to our interest in the joint venture, as the implied fair value of the investment, as discussed above, was less than its carrying value.

We have entered into our joint venture with The Confederated Tribes of the Chehalis Reservation to develop a Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This joint venture is a limited liability company; we are a member of that limited liability company with a 49% ownership interest. At December 31, 2008, the joint venture had aggregate outstanding indebtedness to third parties of \$102,000. As of December 31, 2008, we have made combined loan and equity contributions, net of loan repayments, of \$38,925 to the joint venture to fund a portion of construction cost of the resort. In January 2009, the other member of the joint venture purchased \$5,991 of our loan at par.

We expect that capital will be required to fund the activities of the resorts owned by these joint ventures and we may in the future fund either or both of the joint ventures' share of the costs not funded by the majority owner of the joint venture, the joint ventures' operations or outside financing. In particular, the resorts owned by the CNL joint venture have been adversely affected by a regional economic downturn and greater than expected competitive pressures. In February 2009, we made a \$303 capital contribution to the CNL joint venture. We are working with our partner to develop strategies to improve the performance of the properties and minimize any potential future capital funding by

the joint venture's partners.

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

***Contractual Obligations***

The following table summarizes our contractual obligations as of December 31, 2008:

	<b>Total</b>	<b>Payment Terms</b>			<b>More Than 5 Years</b>
		<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	
Debt obligations(1)	\$ 581,092	\$ 92,331	\$ 170,699	\$ 53,177	\$ 264,885
Operating lease obligations	1,229	548	485	145	51
Construction contracts	20,722	20,722			
Reserve on unrecognized tax benefits	1,298			1,298	
<b>Total</b>	<b>\$ 604,341</b>	<b>\$ 113,601</b>	<b>\$ 171,184</b>	<b>\$ 54,620</b>	<b>\$ 264,936</b>

(1) Amounts include interest (for fixed rate debt) and principal. They also include \$8,493 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,503 of fixed rate debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by our Sheboygan resort.

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

***Working Capital***

We had \$14,231 of available cash and cash equivalents and a working capital deficit of \$117,323 (current assets less current liabilities) at December 31, 2008, compared to the \$18,597 of available cash and cash equivalents and a working capital deficit of \$98,560 at December 31, 2007. The primary reasons for the working capital deficit are:

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

less proceeds from issuances of long-term debt, and

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

**Cash Flows*****Comparison of Year Ended December 31, 2008 to Year Ended December 31, 2007***



	<b>Year Ended December 31,</b>		<b>Increase</b>
	<b>2008</b>	<b>2007</b>	<b>(Decrease)</b>
Net cash provided by operating activities	\$ 33,534	\$ 29,751	\$ 3,783
Net cash used in investing activities	(144,612)	(213,867)	69,255
Net cash provided by financing activities	106,712	105,935	777

*Operating Activities.* The increase in net cash provided by operating activities resulted primarily from an increase in equity in losses of unconsolidated affiliates, during the year ended December 31, 2008 as compared to December 31, 2007.

*Investing Activities.* The decrease in net cash used in investing activities for the year ended December 31, 2008, as compared to the year ended December 31, 2007, resulted primarily from decreased capital

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expenditures for our properties that are in service and under development, a decrease in cash used to fund our investments in unconsolidated affiliates, and the receipt of payments on a loan from one of our joint ventures.

*Financing Activities.* The increase in net cash provided by financing activities resulted primarily from the proceeds from our Williamsburg loan during the year ended December 31, 2008. The increase from the loan proceeds were offset partially by an increase in principal payments and loan costs.

***Comparison of Year Ended December 31, 2007 to Year Ended December 31, 2006***

	<b>Year Ended December 31,</b>		<b>Increase</b>
	<b>2007</b>	<b>2006</b>	<b>(Decrease)</b>
Net cash provided by operating activities	\$ 29,751	\$ 29,723	\$ 28
Net cash used in investing activities	(213,867)	(107,123)	(106,744)
Net cash provided by financing activities	105,935	119,396	(13,461)

*Investing Activities.* The increase in net cash used in investing activities for the year ended December 31, 2007, as compared to the year ended December 31, 2006, resulted primarily from increased capital expenditures for our properties that are in service and our development properties. This increase in net cash used was also due to distributions received in 2006 from our unconsolidated related party.

*Financing Activities.* The decrease in net cash provided by financing activities resulted primarily from less proceeds received from issuances of long-term debt in 2007 as compared to 2006 offset by draws on our Mason and Grapevine construction loans during the year ended December 31, 2007.

**Inflation**

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

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

As of December 31, 2008, we had total indebtedness of approximately \$507,051. This debt consisted of:

\$70,211 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

\$76,800 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum. The effective rate was 6.50% at December 31, 2008.

\$96,571 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%.

\$64,625 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis points, with a minimum rate of 6.25% per annum. The effective rate was 6.25% at December 31, 2008.

\$78,709 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points. The effective rate was 3.04% at December 31, 2008.

\$27,594 of variable rate debt secured by one of our resorts. This debt bears interest at a floating annual rate of LIBOR plus a spread of 345 basis points during the construction period and LIBOR plus a

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spread of 310 basis points once the resort is open, with a minimum rate of 6.50% per annum. The effective rate was 6.50% at December 31, 2008.

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

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

\$8,493 of fixed rate debt (effective interest rate of 10.67%) recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,503 of noninterest bearing debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by the Sheboygan resort.

As of December 31, 2008, we estimate the total fair value of the indebtedness described above to be \$152,270 less than their total carrying values, due to the terms of the existing debt being different than those terms we believe would currently be available to us for indebtedness with similar risks and remaining maturities.

If LIBOR were to increase by 1% or 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$787 annually, based on our debt balances outstanding and current interest rates in effect as of December 31, 2008. If LIBOR were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately \$787 annually, based on our debt balances outstanding as of December 31, 2008.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The following consolidated financial statements are filed as part of this Annual Report on Form 10-K:

	<b>Page No.</b>
<b>Consolidated Financial Statements of Great Wolf Resorts and Subsidiaries:</b>	
<u>Report of Independent Registered Public Accounting Firms</u>	65
<u>Consolidated Balance Sheets for Great Wolf Resorts, Inc. and subsidiaries as of December 31, 2008 and 2007</u>	67
<u>Consolidated Statements of Operations for Great Wolf Resorts, Inc. and subsidiaries for the years ended December 31, 2008, 2007 and 2006</u>	68
<u>Consolidated Statements of Equity for Great Wolf Resorts, Inc. and subsidiaries for the years ended December 31, 2008, 2007 and 2006</u>	69
<u>Consolidated Statements of Cash Flows for Great Wolf Resorts, Inc. and subsidiaries for the years ended December 31, 2008, 2007 and 2006</u>	70
<u>Notes to Consolidated Financial Statements</u>	71

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Great Wolf Resorts, Inc.

We have audited the accompanying consolidated balance sheet of Great Wolf Resorts, Inc. (a Delaware Corporation) and subsidiaries (the Company) as of December 31, 2008, and the related consolidated statement of operations and comprehensive loss, equity and cash flows for the year ended December 31, 2008. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2008, and the consolidated results of their operations and their cash flows for the year ended December 31, 2008 in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2009 expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Madison, Wisconsin  
March 5, 2009

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders  
Great Wolf Resorts, Inc.  
Madison, Wisconsin

We have audited the accompanying consolidated balance sheets of Great Wolf Resorts, Inc. and subsidiaries (the Company ) as of December 31, 2007, and the related consolidated statements of operations and comprehensive loss, equity and cash flows for each of the two years in the period ended December 31, 2007. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2007, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2007, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the consolidated financial statements, on January 1, 2006, the Company changed its method of accounting for share-based compensation to adopt Statement of Financial Accounting Standards No. 123R, *Share-Based Payment*.

/s/ DELOITTE & TOUCHE, LLP

Milwaukee, Wisconsin  
March 5, 2008

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONSOLIDATED BALANCE SHEETS**

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
	<b>(dollars in thousands, except per share amounts)</b>	
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 14,231	\$ 18,597
Accounts receivable, net of allowance for doubtful accounts of \$114 and \$113	2,167	2,373
Accounts receivable affiliates, net of allowance for doubtful accounts of \$1,201 in 2008	925	3,973
Inventory	4,265	4,632
Other current assets	3,055	2,869
<b>Total current assets</b>	<b>24,643</b>	<b>32,444</b>
Property and equipment, net	716,173	617,697
Investment in and advances to affiliates	43,855	59,148
Other assets	31,561	20,257
Other intangible assets	23,829	23,829
Goodwill		17,430
<b>Total assets</b>	<b>\$ 840,061</b>	<b>\$ 770,805</b>
<b>LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 81,464	\$ 78,752
Accounts payable	23,217	18,471
Accrued expenses	22,565	20,776
Accrued expenses affiliates	1,806	124
Advance deposits	7,498	8,211
Gift certificates payable	5,416	4,670
<b>Total current liabilities</b>	<b>141,966</b>	<b>131,004</b>
Mortgage debt	333,259	225,042
Other long-term debt	92,328	92,508
Other long-term liabilities		2,232
Deferred tax liability		7,597
Deferred compensation liability	568	2,029
<b>Total liabilities</b>	<b>568,121</b>	<b>460,412</b>
Commitments and contingencies		



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Stockholders' Equity:

Common stock, \$0.01 par value, 250,000,000 shares authorized, 30,982,646 and 30,698,683 shares issued and outstanding at December 31, 2008 and 2007, respectively	310	307
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2008 and 2007		
Additional paid-in capital	399,641	399,759
Accumulated deficit	(127,811)	(87,086)
Deferred compensation	(200)	(2,200)
Accumulated other comprehensive loss, net of tax		(387)
<b>Total stockholders' equity</b>	<b>271,940</b>	<b>310,393</b>
<b>Total liabilities, minority interests and stockholders' equity</b>	<b>\$ 840,061</b>	<b>\$ 770,805</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS  
AND COMPREHENSIVE LOSS****(dollars in thousands, except per share data)**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Revenues:			
Rooms	\$ 143,395	\$ 112,261	\$ 87,775
Food and beverage	38,808	29,588	21,930
Other hotel operations	35,365	27,085	21,207
Management and other fees	2,798	2,855	2,087
Management and other fees affiliates	5,346	4,314	3,729
	225,712	176,103	136,728
Other revenue from managed properties-affiliates	19,826	11,477	11,920
Total revenues	245,538	187,580	148,648
Operating expenses by department:			
Rooms	20,134	15,716	11,914
Food and beverage	30,990	25,196	18,806
Other	28,959	23,104	17,117
Other operating expenses:			
Selling, general and administrative	51,902	47,915	41,421
Property operating costs	37,086	30,555	23,217
Depreciation and amortization	46,081	36,372	25,903
Impairment loss on investment in affiliates	18,777		
Goodwill impairment	17,430		50,975
Loss on disposition of property	19	128	1,066
	251,378	178,986	190,419
Other expenses from managed properties-affiliates	19,826	11,477	11,920
Total operating expenses	271,204	190,463	202,339
Net operating loss	(25,666)	(2,883)	(53,691)
Investment income affiliates	(2,187)	(667)	
Interest income	(1,424)	(2,758)	(3,105)
Interest expense	27,277	14,887	7,169
Loss before income taxes, minority interests, and equity in unconsolidated affiliates	(49,332)	(14,345)	(57,755)
Income tax benefit	(11,956)	(5,859)	(8,764)

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Minority interests, net of tax		(452)	(502)
Equity in unconsolidated affiliates, net of tax	3,349	1,547	761
Net loss	\$ (40,725)	\$ (9,581)	\$ (49,250)
Other comprehensive loss, net of tax:			
Unrealized (gain) loss on interest rate swap	(387)	387	
Comprehensive loss	\$ (40,338)	\$ (9,968)	\$ (49,250)
Basic loss per share	\$ (1.32)	\$ (0.31)	\$ (1.63)
Diluted loss per share	\$ (1.32)	\$ (0.31)	\$ (1.63)
Weighted average common shares outstanding:			
Basic	30,827,860	30,533,249	30,299,647
Diluted	30,827,860	30,533,249	30,299,647

See accompanying notes to consolidated financial statements.

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF EQUITY****(dollars in thousands, except per share data)**

	<b>Common Shares</b>	<b>Common Stock</b>	<b>Additional Paid- in Capital</b>	<b>Accumulated Deficit</b>	<b>Deferred Compensation</b>	<b>Accumulated Other Comprehensive Loss</b>	<b>Total Equity</b>
Balance, January 1, 2006	30,277,308	\$ 303	\$ 394,212	\$ (28,255)	\$ (2,349)	\$	\$ 363,911
Issuance of non-vested equity shares	232,012	2					2
Reclassification of unearned compensation to additional paid-in capital upon the adoption of Financial Accounting Standards No. 123(R)			(149)		149		
Stock-based compensation			3,052				3,052
Share issuance costs			(206)				(206)
Net loss				(49,250)			(49,250)
Balance, December 31, 2006	30,509,320	305	396,909	(77,505)	(2,200)		317,509
Issuance of non-vested equity shares	189,363	2					2
Stock-based compensation			2,850				2,850
Unrealized loss on interest rate swap, net of tax						(387)	(387)
Net loss				(9,581)			(9,581)
Balance, December 31, 2007	30,698,683	307	399,759	(87,086)	(2,200)	(387)	310,393
Issuance of non-vested equity shares	283,963	3					3
Sale of common stock							
deferred compensation plan			(2,000)		2,000		
Stock-based compensation			1,882				1,882
Unrealized gain on interest rate swap, net of tax						387	387
Net loss				(40,725)			(40,725)
Balance, December 31, 2008	30,982,646	\$ 310	\$ 399,641	\$ (127,811)	\$ (200)	\$	\$ 271,940

See accompanying notes to consolidated financial statements.

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS****(dollars in thousands)**

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
<b>Operating activities:</b>			
Net loss	\$ (40,725)	\$ (9,581)	\$ (49,250)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	46,081	36,372	25,903
Bad debt expense	1,305	154	189
Impairment loss in investment in affiliates	18,777		
Goodwill impairment	17,430		50,975
Non-cash employee compensation and professional fees expense	250	5,080	3,559
Loss on disposition of property	19	128	1,066
Equity in losses of unconsolidated affiliates	4,421	2,616	1,269
Minority interests		(764)	(836)
Deferred tax benefit	(14,072)	(7,105)	(9,500)
Changes in operating assets and liabilities:			
Accounts receivable and other assets	(1,916)	(4,399)	3,918
Accounts payable, accrued expenses and other liabilities	1,964	7,250	2,430
Net cash provided by operating activities	33,534	29,751	29,723
<b>Investing activities:</b>			
Capital expenditures for property and equipment	(134,967)	(171,884)	(120,523)
Cash distributions from unconsolidated affiliates			18,902
Loan repayment from unconsolidated affiliates	3,168		
Investment in unconsolidated affiliates	(10,430)	(24,058)	(523)
Investment in development	(2,255)	(10,276)	(4,626)
Purchase of minority interest		(6,900)	
Issuance of notes receivable		(3,263)	
Proceeds from sale of assets			2,101
Decrease (increase) in restricted cash	55	2,289	(1,282)
Decrease (increase) in escrow	(183)	225	(1,172)
Net cash used in investing activities	(144,612)	(213,867)	(107,123)
<b>Financing activities:</b>			
Principal payments on long-term debt	(57,294)	(1,350)	(31,978)
Proceeds from issuance of long-term debt	168,042	108,263	153,039
Payment of loan costs	(4,036)	(978)	(1,665)

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Net cash provided by financing activities	106,712	105,935	119,396
Net (decrease) increase in cash and cash equivalents	(4,366)	(78,181)	41,996
Cash and cash equivalents, beginning of year	18,597	96,778	54,782
Cash and cash equivalents, end of year	\$ 14,231	\$ 18,597	\$ 96,778
Supplemental cash flow information:			
Cash paid for interest, net of capitalized interest	\$ 26,749	\$ 13,404	\$ 6,036
Cash paid for income taxes, net of refunds	\$ 597	\$ (312)	\$ (471)
Non-cash items:			
Construction in process accruals	\$ 6,969	\$ 9,728	\$ 10,101
Guarantee on loan for unconsolidated affiliate	\$	\$ 1,180	\$

See accompanying notes to consolidated financial statements.

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(dollars in thousands, except per share amounts)****1. ORGANIZATION**

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

***Business Summary***

We are a family entertainment resort company. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to 400 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge® and Blue Harbor Resort™ brand names.

We earn revenues through the sale of rooms, which includes admission to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, an ice cream shop and confectionery, full-service spa, game arcade, gift shop, miniature golf, interactive game attraction and meeting space. We also generate revenues from licensing arrangements, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of 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).

	<b>Ownership Percentage</b>	<b>Opened/ Opening</b>	<b>Number of Guest Suites</b>	<b>Number of Condo Units(1)</b>	<b>Indoor Entertainment Area(2) (Approx. ft<sup>2</sup>)</b>
<b>Existing Resorts:</b>					
Wisconsin Dells, WI(3)	30.32%	1997	308	77	102,000
Sandusky, OH(3)	30.32%	2001	271		41,000
Traverse City, MI	100%	2003	280		57,000
Kansas City, KS	100%	2003	281		57,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		87,000
Pocono Mountains, PA	100%	2005	401		101,000
Niagara Falls, ONT(4)		2006	406		104,000
Mason, OH	100%	2006	401		105,000
Grapevine, TX(5)	100%	2007	605		110,000
Grand Mound, WA(6)	49%	2008	398		74,000
<b>Resort Under Construction:</b>					



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.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

- (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.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Principles of Consolidation* The accompanying consolidated financial statements include all of the accounts of Great Wolf Resorts and our consolidated subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

*Cash and Cash Equivalents* Cash and cash equivalents consist of highly liquid investments with an original maturity of three months or less when acquired. Cash is invested with federally insured institutions that are members of the FDIC. Cash balances with institutions may be in excess of federally insured limits or may be invested in time deposits that are not insured by the institution, the FDIC or any other government agency. Cash and cash equivalents does not include cash escrowed under loan agreements or cash restricted in connection with deferred compensation payable.

*Accounts receivable* Accounts receivable primarily represents receivables from resort guests who occupy rooms and utilize resort amenities. We provide an allowance for doubtful accounts when we determine that it is more likely than not a specific account will not be collected. Bad debt expense for the years ended December 31, 2008, 2007, and 2006 was \$1,305, \$154, and \$189, respectively. Writeoffs of accounts receivable for the years ended December 31, 2008, 2007, and 2006, were \$103, \$246, and \$79, respectively.

*Inventory* Inventories are recorded at the lower of cost on an average cost basis or market.

*Property and Equipment* Investments in property and equipment are recorded at cost. These assets are depreciated using the straight-line method over their estimated useful lives as follows:

Buildings and improvements	20-40 years
Fixtures and equipment, including waterpark equipment	5-15 years

We periodically review the estimated useful lives we have assigned to our depreciable assets to determine whether those useful lives are reasonable and appropriate.

Improvements and replacements are capitalized when they extend the useful life, increase capacity or improve the efficiency of the asset. Repairs and maintenance expenditures are expensed as incurred. Construction in process includes costs such as site work, permitting and construction related to resorts under development. Interest is capitalized on construction in process balances during the construction period. Interest

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

capitalized totaled \$4,714, \$9,277, and \$7,628 for the years ended December 31, 2008, 2007, and 2006, respectively.

*Loan Fees* Loan fees are capitalized and amortized over the term of the loan using a method that approximates the effective interest method. Loan fees, net of accumulated amortization, were \$6,462, \$4,928 and \$4,823 as of December 31, 2008, 2007 and 2006, respectively. Amortization of loan fees was \$2,502, \$872, and \$515 for the years ended December 31, 2008, 2007, and 2006, respectively. Included in loan fee amortization for the years ended December 31, 2008 and 2006 were \$615 and \$178, respectively, of loan fees that were written off due to repayments of debt.

*Partially-Owned Entities* To determine the method of accounting for our partially-owned entities, we consider Accounting Principles Based Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock, Statement of Position 78-9, Accounting for Investments in Real Estate Ventures, Emerging Issues Task Force (EITF) 96-16, Investors Accounting for an Investee When the Investor has the Majority of the Voting Interest but the Minority Partners have Certain Approval or Veto Rights, FASB Interpretation No. 46 (Revised 2003), Consolidation of Variable Interest Entities An Interpretation of ARB No. 51 and EITF 04-5, Determining Whether a General Partner, or the General Partners as a group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights. In determining whether we had controlling interest in a partially-owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, authority to make decisions, and contractual and substantive participating rights of the partners/members as well as whether the entity is a variable interest entity in which we will absorb the majority of the entity's expected losses, if they occur, or receive the majority of the expected residual returns, if they occur, or both.

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

*Other Intangible Assets* Our other intangible assets consist of the value of our Great Wolf Lodge brand name. This intangible asset has an indefinite useful life. In accordance with Statement of Financial Accounting Standards (SFAS) No. 142 Goodwill and Other Intangible Assets, we do not amortize this intangible, but instead test it for possible impairment at least annually by comparing the fair value of the intangible asset with its carrying amount. Our assessment during the year ended December 31, 2008 determined that no such impairment had occurred. Future adverse changes in the hospitality and lodging industry, market conditions or poor operating results of the underlying real estate assets could result in future losses or the inability to recover the carrying value of these intangibles.

*Goodwill* The excess of the purchase price of entities that are considered to be purchases of businesses over the estimated fair value of tangible and identifiable intangible assets acquired is recorded as goodwill. In connection with SFAS 142, Goodwill and Other Intangible Assets, we are required to assess goodwill for impairment annually, or

more frequently if circumstances indicate impairment may have occurred. We assess goodwill for such impairment by comparing the carrying value of our reporting units to their fair values. We determine our reporting units' fair value using a discounted cash flow model.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In the fourth quarter of 2008, as part of our annual impairment assessment of our remaining goodwill on our Kansas City and Mason resorts, we considered various pieces of information, including:

2009 budget information;

The impact of the December holiday season on overall 2008 financial results;

Full year 2008 financial results for each of the resorts;

Impact of/changes in the economy since the severe economic disruptions of 2008; and

Forecasted booking trends for 2009.

We required all of this information to complete our impairment assessments. We concluded that the implied fair value of the goodwill, as discussed above, on our Kansas City and Mason resorts was less than the carrying value of those goodwill amounts for each of the resorts. As a result, we wrote off \$17,430 of goodwill on our Kansas City and Mason resorts in the 2008 fourth quarter. We had a similar impairment in 2006 in the amount of \$50,975. As of December 31, 2008, all goodwill has been written off.

*Impairment of Long-Lived Assets* When circumstances, such as adverse market conditions, indicate that the carrying value of a long-lived asset may be impaired, we perform an analysis to review the recoverability of the asset's carrying value. We make estimates of the undiscounted cash flows (excluding interest charges) from the expected future operations of the asset. These estimates consider factors such as expected future operating income, operating trends and prospects, as well as the effects of demand, competition and other factors. If the analysis indicates that the carrying value is not recoverable from future cash flows, an impairment loss is recognized to the extent that the carrying value exceeds the estimated fair value. Any impairment losses are recorded as operating expenses, which reduce net income. We had no impairment losses related to long-lived assets in any of the periods presented.

*Revenue Recognition* We earn revenues from our resort operations, management of resorts and other related services, and sales of condominiums.

We recognize revenue from rooms, food and beverage, and other operating departments at the resorts as earned at the time of sale or rendering of service. Cash received in advance of the sale or rendering of services is recorded as advance deposits on the consolidated balance sheets. We recognize resort management and related fees as they are contractually earned. We recognize development and construction management fees as earned under the completed contract method for projects with a short duration, and the percentage of completion method (based on contract-to-date services performed or costs incurred compared to services performed or total expected costs) for longer-term projects. We recognize revenue from the sale of real estate assets in accordance with SFAS 66, Accounting for Sales of Real Estate.

*Sales of Real Estate Assets* SFAS 66 requires an entity to recognize gains on sales of real estate only when a sale is consummated, the buyer's initial and continuing investments are adequate to demonstrate a commitment to pay, and risks and rewards of ownership are transferred to the buyer. We account for gains and losses on sales of real estate in accordance with the provisions of SFAS 66. In 2006 we recorded a loss of \$953 related to our 2005 sale of two of our

resorts to a joint venture.

*Other Revenue and Other Expenses From Managed Properties* We employ the staff at some of our managed properties. Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the staff we employ at the managed properties. EITF 01-14 Income Statement Characterization of Reimbursements Received for Out-of-Pocket Expenses Incurred, establishes standards for accounting for reimbursable expenses in our income statement. Under this pronouncement, the reimbursement of payroll, benefits and costs is recorded as other revenue from managed properties on our statements of operations, with a corresponding expense recorded as other expenses from managed properties.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

*Income Taxes* We account for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

We record net deferred tax assets to the extent we believe these assets will more likely than not be realized. In making such determination, we consider all available positive and negative evidence, including scheduled reversals of deferred tax liabilities, projected future taxable income (that could result from a sale of one or more of our resorts where there is a sales price in excess of tax basis), tax planning strategies and recent financial operations. In the event we were to determine that we would be able to realize our deferred income tax assets in the future in excess of their net recorded amount, we would make an adjustment to the valuation allowance which would reduce the provision for income taxes.

In July 2006, the FASB issued Financial Interpretation ( FIN ) No. 48, Accounting for Uncertainty in Income Taxes, which clarifies the accounting for uncertainty in income taxes recognized in the financial statements in accordance with SFAS 109, Accounting for Income Taxes. FIN No. 48 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized upon the adoption of FIN 48 and in subsequent periods. This interpretation also provides guidance on measurement, derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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

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

*Fair Value Measurements* SFAS 157, Fair Value Measurements, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the



measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under accounting principles generally accepted in the United States of America, or GAAP, certain assets and liabilities must be measured at fair value, and SFAS 157 details the disclosures that are required for items measured at fair value.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We must measure our derivatives under SFAS No. 157. None of our current non-financial assets or non-financial liabilities must be measured at fair value on a recurring basis. We measure our derivatives using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (that is, interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

We have no outstanding derivatives at December 31, 2008.

*Derivatives* We account for derivative instruments in accordance with SFAS 133 Accounting for Derivative Instruments and Hedging Activities, as amended and interpreted. Derivative instruments are recorded on the balance sheet as either an asset or liability measured at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative are recognized in earnings. To the extent the hedge is effective; there is an offsetting adjustment to the basis of the item hedged. If the derivative is designated as a cash flow hedge, the effective portions of the changes in fair value of the derivative are recorded as a component of accumulated other comprehensive loss and recognized in the consolidated statements of operations when the hedged item affects earnings. Ineffective portions of changes in the fair value of hedges are recognized in earnings. Our policy is to execute derivative financial instruments with creditworthy banks and not to enter into such instruments for speculative purposes.

*Share based compensation* We account for share based compensation in accordance with SFAS 123(R) Share Based Payment, using the modified prospective application transition method. Before we adopted SFAS 123(R), we accounted for share-based compensation in accordance with Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees.

*Advertising* Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2008, 2007, and 2006 was \$13,321, \$12,323, and \$10,297, respectively.

*Comprehensive Income* Comprehensive income consists of the net income and other gains and losses affecting stockholders' equity that, under accounting principles generally accepted in the United States, are excluded from net income. Other comprehensive loss as presented in the consolidated statements of stockholders' equity for 2008 consisted of the unrealized gain, net of tax, on the Company's cash flow hedge which expired in November 2008.

*Segments* We have three reportable segments in 2008, 2007 and 2006:

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

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

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

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following summarizes significant financial information regarding our segments:

	<b>Resort Ownership/ Operation</b>	<b>Resort Third- Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Year Ended December 31, 2008</b>					
Revenues	\$ 217,568	\$ 27,970	\$	\$	\$ 245,538
Depreciation and amortization	(45,042)			(1,039)	\$ (46,081)
Impairment loss on investment in affiliates				(18,777)	\$ (18,777)
Goodwill impairment	(16,021)			(1,409)	\$ (17,430)
Operating income (loss)	(11,286)	8,144		(22,524)	\$ (25,666)
Investment income					2,187
Interest income					1,424
Interest expense					(27,277)
Loss before income taxes, minority interest, and equity in unconsolidated affiliates					\$ (49,332)
Additions to long-lived assets	134,167			800	\$ 134,967
Total assets	738,119	2,314		99,628	\$ 840,061

	<b>Resort Ownership/ Operation</b>	<b>Resort Third- Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Year Ended December 31, 2007</b>					
Revenues	\$ 168,934	\$ 18,646	\$	\$	\$ 187,580
Depreciation and amortization	(35,767)			(605)	\$ (36,372)
Operating income (loss)	(3,588)	7,169	(682)	(5,782)	\$ (2,883)
Investment income					667
Interest income					2,758
Interest expense					(14,887)

Loss before income taxes, minority interest, and equity in unconsolidated affiliates				\$ (14,345)
Additions to long-lived assets	171,197		687	\$ 171,884
Total assets	653,367	4,384	113,054	\$ 770,805

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	<b>Resort Ownership/ Operation</b>	<b>Resort Third- Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Year Ended December 31, 2006</b>					
Revenues	\$ 130,912	\$ 17,736	\$	\$	\$ 148,648
Depreciation and amortization	(25,390)			(513)	\$ (25,903)
Goodwill impairment	(50,975)				\$ (50,975)
Operating income (loss)	(49,633)	5,817	(370)	(9,505)	\$ (53,691)
Interest income					3,105
Interest expense					(7,169)
Loss before income taxes, minority interest, and equity in unconsolidated affiliates					\$ (57,755)
Additions to long-lived assets	119,692			831	\$ 120,523
Total assets	524,820	3,120		155,499	\$ 683,439

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

*Use of Estimates* To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, we must make estimates and assumptions. These estimates and assumptions affect the reported amounts in the financial statements, and the disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

*New Accounting Pronouncements* In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The adoption of SFAS 157 in 2008 did not have an impact on our results of operations or financial position. In February 2008, the FASB issued FASB Staff Position FAS 157-2, Partial Deferral of the Effective Date of Statement 157 (FSP 157-2). FSP 157-2 delays the effective date of SFAS 157 for non-financial assets and liabilities that are not measured or disclosed on a recurring basis to fiscal years beginning after November 15, 2008. We are currently evaluating the impact of the adoption of FSP 157-2 and do not expect it to have a material impact on our financial statements.

In December 2007, the FASB issued SFAS 141 (Revised 2007), Business Combinations. SFAS 141(R) will significantly change the accounting for business combinations. Under SFAS 141(R), an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value

with limited exceptions. SFAS 141(R) also includes a substantial number of new disclosure requirements. SFAS 141(R) applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We do not expect the adoption of SFAS 141(R) to have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 160, Non-controlling Interests in Consolidated Financial Statements-an Amendment of Accounting Research Bulletin No. 51. SFAS 160 establishes new accounting and reporting standards for a non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a non-controlling interest (minority interest) as equity in the consolidated financial statements separate from the parent's equity. The amount of the new income attributable to the non-controlling interest will be included in consolidated net income on the face of

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the income statement. SFAS 160 clarifies that changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the non-controlling equity investment on the deconsolidation date. SFAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its non-controlling interest. SFAS 160 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after December 15, 2008. We do not expect the adoption of SFAS 160 to have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133. SFAS 161 requires enhanced disclosures for derivative and hedging activities. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact of the adoption of this statement and do not expect it to have a material impact on our financial statements.

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

In May 2008, the FASB issued SFAS 162, The Hierarchy of Generally Accepted Accounting Principles. SFAS 162 identifies the sources of generally accepted accounting principles and provides a framework, or hierarchy, for selecting the principles to be used in preparing financial statements for non-governmental entities in conformity with GAAP. This statement was effective on November 15, 2008. The adoption of this statement did not have a material impact on our financial statements.

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

**3. INVESTMENT IN AFFILIATES**

***CNL Joint Venture***

In October 2005, we formed a joint venture with CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties. The joint venture acquired two of our wholly owned properties - Great Wolf Lodge Wisconsin Dells, Wisconsin, and Great Wolf Lodge Sandusky, Ohio. CNL paid us \$80,150 to purchase a 70% interest in the joint venture; we retained the remaining 30% of the joint venture. We continue to manage the properties and license the Great Wolf Lodge brand to the joint venture under 25-year agreements. In 2007, we contributed additional assets to the joint venture which increased our ownership percentage to 30.32%.



In March 2006, our joint venture with CNL entered into a loan agreement and borrowed \$63,000. The loan is secured by the joint venture's resorts. Pursuant to the joint venture agreement, the joint venture distributed to us 30% of the net loan proceeds, or approximately \$18,600.

In accordance with the provisions of SFAS 66, upon formation of the joint venture we reclassified 30% of the historical carrying value of the two properties' net assets to our investment in affiliate balance. We wrote

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

off the remaining 70% of the historical carrying value of the properties net assets in determining the loss on sale.

In the fourth quarter of 2008, we concluded that continued adverse current and expected market conditions for our Wisconsin Dells and Sandusky resorts indicated that our minority investment in the joint venture that owns these resorts may be impaired. Accordingly, we conducted an analysis, as described above, to assess the recoverability of the carrying value of our investments in that affiliate. As part of that analysis, we considered various pieces of information, including:

2009 budget information;

The impact of the December holiday season on overall 2008 financial results;

The relative success of operational adjustments implemented throughout 2008 to improve the resorts operations;

Full year 2008 financial results for each of the resorts;

Impact of/changes in the economy since the severe economic disruptions of 2008; and

Forecasted booking trends for 2009.

We required all of this information to complete our impairment analysis. We concluded that the fair value of our investment in this joint venture, as discussed above, was less than its carrying value. As a result, we recorded an \$18,777 impairment loss related to our 30.32% interest in the joint venture that owns the Wisconsin Dells and Sandusky resorts, as the implied fair value of the investment, as discussed above, was less than its carrying value.

The carrying value of our investment in this joint venture was \$5,686 and \$23,814 as of December 31, 2008 and 2007, respectively. Included in the carrying value are differences between the amount at which the investment is carried and the amount of underlying equity in net assets of \$0 and \$551 as of December 31, 2008 and 2007, respectively. We amortize the differences over the average life of the underlying fixed assets.

Summary financial data for this joint venture as of and for the years ended December 31, 2008 and 2007 is as follows:

	<b>2008</b>	<b>2007</b>
<b>Balance sheet data:</b>		
Total assets	\$ 104,712	\$ 111,982
Total liabilities	\$ 69,612	\$ 71,058
<b>Operating data:</b>		
Revenue	\$ 31,531	\$ 34,597
Operating expenses	\$ (39,491)	\$ (41,341)
Net loss	\$ (7,960)	\$ (6,703)

We have a receivable from the joint venture of \$1,465 and \$1,656 that relates primarily to license fees as of December 31, 2008 and 2007, respectively. At December 31, 2008, we have reserved \$1,201 against this receivable. We have a payable to the joint venture of \$1,225 and \$124 as of December 31, 2008 and 2007, respectively.

***Grand Mount Joint Venture***

We have entered into our joint venture with The Confederated Tribes of the Chehalis Reservation to develop a Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound,

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Washington. This resort opened in March 2008. This joint venture is a limited liability company; we are a member of that limited liability company with a 49% ownership interest. At December 31, 2008, the joint venture had aggregate outstanding indebtedness to third parties of \$102,000. The carrying value of our investment in this joint venture was \$38,169 and \$35,339 as of December 31, 2008 and 2007, respectively. Included in the carrying value are differences between the amount at which the investment is carried and the amount of underlying equity in net assets of \$3,126 and \$1,971 as of December 31, 2008 and 2007, respectively. We amortize the differences over the average life of the underlying fixed assets. Total loans outstanding between us and the joint venture were \$11,746 as of December 31, 2008; this loan bears interest at 11% per annum and matures in August 2013. In January 2009, our joint venture partner purchased \$5,991 of this debt from us at par.

We have a receivable from the joint venture of \$661 and \$2,317 that relates primarily to accrued preferred equity returns as of December 31, 2008 and 2007, respectively. This amount is recorded as accounts receivable-affiliates on our consolidated balance sheet. We have a payable to the joint venture of \$581 as of December 31, 2008.

Summary financial data for this joint venture for the years ended December 31, 2008 and 2007 is as follows:

	<b>2008</b>	<b>2007</b>
<b>Balance sheet data:</b>		
Total assets	\$ 152,215	\$ 122,975
Total liabilities	\$ 118,636	\$ 80,659
<b>Operating data:</b>		
Revenue	\$ 33,194	\$
Operating expenses	\$ 31,739	\$
Net loss	\$ (5,553)	\$ (2,369)

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Land and improvements	\$ 51,684	\$ 51,398
Building and improvements	353,537	289,768
Furniture, fixtures and equipment	315,577	334,836
Construction in process	117,063	19,737
	837,861	695,739
Less accumulated depreciation	(121,688)	(78,042)
Property and equipment, net	\$ 716,173	\$ 617,697

Depreciation expense was \$43,663, \$35,686, and \$25,657 for the years ended December 31, 2008, 2007 and 2006 respectively.

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****5. LONG-TERM DEBT**

Long-term debt consists of the following:

	<b>December 31,</b>	
	<b>2008</b>	<b>2007</b>
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	\$ 70,211	\$ 71,542
Mason mortgage loan	76,800	76,800
Pocono Mountains mortgage loan	96,571	97,000
Williamsburg mortgage loan	64,625	
Grapevine construction loan	78,709	58,260
Concord construction loan	27,594	
Junior subordinated debentures	80,545	80,545
Other Debt:		
City of Sheboygan bonds	8,493	8,465
City of Sheboygan loan	3,503	3,690
	507,051	396,302
Less current portion of long-term debt	(81,464)	(78,752)
Total long-term debt	\$ 425,587	\$ 317,550

*Traverse City/Kansas City Mortgage Loan* This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at December 31, 2008.

*Mason Mortgage Loan* This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 425 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of December 31, 2008). The loan initially matured in November 30, 2008. On January 23, 2009, the maturity date was extended to November 30, 2009. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. In addition, we have provided the Mason mortgage loan lenders with a \$15,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a \$15,000 principal reduction of the Mason loan over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of majority-owned equity interest in any of our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds toward the \$15,000 mandatory principal reduction. We were in compliance with all covenants under this loan at December 31, 2008.

*Pocono Mountains Mortgage Loan* This loan is secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in December 2016. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at December 31, 2008.

*Williamsburg Mortgage Loan* In August 2008 we closed on a \$65,000 first mortgage loan secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

points with a minimum rate of 6.25% per annum (effective rate of 6.25% as of December 31, 2008). This loan matures in August 2011 and has a one-year extension available at our option, assuming the property meets an operating performance threshold. The loan has a prepayment fee calculated as 3.50% of the prepaid principal amount for any payments made in the first twelve months of the loan. After twelve months, the loan has no prepayment fees. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at December 31, 2008.

*Grapevine Construction Loan* This loan is secured by our Grapevine resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (effective rate of 3.04% as of December 31, 2008). The loan matures in July 2009 and also has two one-year extensions available at our option, provided that the property meets an operating performance threshold. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at December 31, 2008.

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

*Concord Construction Loan* In April 2008 we closed on a \$63,940 construction loan to fund a portion of the total costs of our Great Wolf Lodge resort under construction in Concord. The four-year loan was potentially expandable to a maximum principal amount of up to \$79,900. The loan bears interest at a floating annual rate of LIBOR plus a spread of 345 basis points during the construction period and LIBOR plus a spread of 310 basis points once the resort is open, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of December 31, 2008). The loan requires interest only payments until the one-year anniversary of the opening date of the property and then requires monthly principal payments based on a 25-year amortization schedule. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. We were in compliance with all covenants under this loan at December 31, 2008. In January 2009, the total commitments under this loan increased from \$63,940 to \$79,900.

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

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



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

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June 2012. In addition, we invested \$870 in the Trust's common securities, representing 3% of the total capitalization of Trust III.

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

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

Based on the foregoing accounting authority, our consolidated financial statements present the debentures issued to the Trusts as long-term debt. Our investments in the Trusts are accounted as cost investments and are included in other assets on our consolidated balance sheet. For financial reporting purposes, we record interest expense on the corresponding debentures in our condensed consolidated statements of operations.

*City of Sheboygan Bonds* The City of Sheboygan (the City) bonds represent the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In accordance with the provisions of EITF Issue No. 91-10, we have recognized as a liability the obligations for the BANs. We have an obligation to fund certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028, which obligation is indirectly related to the payments by the City on the BANs.

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

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

2009	\$ 81,464
2010	6,485
2011	143,002
2012	29,039
2013	3,675
Thereafter	243,386
Total	\$ 507,051

## **6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

We adopted SFAS 157, Fair Value Measurements, on January 1, 2008, the first day of fiscal year 2008. SFAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The standard outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Under GAAP, certain assets and

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

liabilities must be measured at fair value, and SFAS 157 details the disclosures that are required for items measured at fair value.

We must measure our derivatives under SFAS 157. None of our current non-financial assets or non-financial liabilities must be measured at fair value on a recurring basis. We measure our derivatives using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

Level 1 inputs are unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date.

Level 2 inputs include quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (that is, interest rates, yield curves, etc.), and inputs that are derived principally from or corroborated by observable market data by correlation or other means (market corroborated inputs).

Level 3 includes unobservable inputs that reflect our assumptions about the assumptions that market participants would use in pricing the asset or liability. We develop these inputs based on the best information available, including our own data.

We have no outstanding derivatives at December 31, 2008.

As of December 31, 2008, we estimate the total fair value of our long-term debt to be \$152,270 less than its total carrying value due to the terms of the existing debt being different than those terms currently available to us for indebtedness with similar risks and remaining maturities.

The carrying amounts for cash and cash equivalents, other current assets, escrows, accounts payable, gift certificates payable and accrued expenses approximate fair value because of the short-term nature of these instruments.

**7. INCOME TAXES**

We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact our consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of \$978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 and 2006 U.S. Federal income tax return related to transaction costs from our IPO. At December 31, 2008, we had unrecognized tax benefits of \$1,298, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 and 2006 U.S. Federal income tax return related to transaction costs from our IPO and certain deductions taken on our 2006 U.S. Federal income tax return related to a tax assessment. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year. The unrecognized tax benefits are classified as a reduction of the net operating loss carryforwards. The following is a reconciliation of the total amounts of unrecognized tax benefits for the year:

Unrecognized tax benefit	December 31, 2007	\$ 1,298
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Gross increases tax positions in current period

Unrecognized tax benefit December 31, 2008

\$ 1,298

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Income tax expense (benefit) consists of:

	<b>Current</b>	<b>Deferred</b>	<b>Total</b>
Year ended December 31, 2008			
Federal	\$	\$ (12,499)	\$ (12,499)
State and local	955	(1,573)	(618)
Foreign	89		89
	\$ 1,044	\$ (14,072)	\$ (13,028)
Year ended December 31, 2007			
Federal	\$	\$ (5,723)	\$ (5,723)
State and local	398	(1,382)	(984)
Foreign	92		92
	\$ 490	\$ (7,105)	\$ (6,615)
Year ended December 31, 2006			
Federal	\$	\$ (8,768)	\$ (8,768)
State and local	506	(732)	(226)
Foreign	56		56
	\$ 562	\$ (9,500)	\$ (8,938)

Total tax benefit is included in the following lines in our Consolidated Statements of Operations and Comprehensive Loss:

	<b>Income Tax Expense (Benefit)</b>		
	<b>for the Year Ending December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Income tax benefit	\$ (11,956)	\$ (5,859)	\$ (8,764)
Minority interest, net of tax		312	334
Equity in unconsolidated affiliates, net of tax	(1,072)	(1,068)	(508)
Total income tax benefit	\$ (13,028)	\$ (6,615)	\$ (8,938)

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The differences between the statutory Federal income tax rate and the effective income tax rate reflected in our consolidated statements of operations are as follows:

	<b>2008</b>	<b>2007</b>	<b>2006</b>
Federal statutory income tax benefit	(35.0)%	(35.0)%	(35.0)%
State income taxes, net of Federal income taxes	(0.6)%	(6.1)%	(0.7)%
Nondeductible goodwill	11.5%		19.9%
Other	(0.1)%	0.3%	0.4%
	(24.2)%	(40.8)%	(15.4)%

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The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2008 and 2007 are presented below:

	<b>2008</b>	<b>2007</b>
Deferred tax assets:		
Net operating loss carryforwards	17,504	13,553
Intangibles	11,564	9,630
Investment in affiliates	7,161	
Salaries and wages	2,534	4,140
Interest rate swap		273
Other	1,329	623
Total deferred tax assets	40,092	28,219
Deferred tax liabilities:		
Property and equipment	\$ (32,922)	\$ (33,598)
Prepaid expenses	(932)	(741)
Interest rate swap	(273)	
Investment in affiliates		(1,629)
Total deferred tax liabilities	(34,127)	(35,968)
Valuation allowance	(366)	(325)
Net deferred tax asset (liability)	\$ 5,599	\$ (8,074)

Our 2008 net deferred tax asset consisted of a current deferred tax liability of \$126 included in accrued expenses and a long-term deferred tax asset of \$5,725 include in other assets on the consolidated balance sheet. Our 2007 net deferred tax liability consisted of a current deferred tax liability of \$477 included in accrued expenses and a long-term deferred tax liability of \$7,597 in the consolidated balance sheet.

We consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. We consider the scheduled reversal of deferred tax liabilities, projected future taxable income (that could result from a sale of one or more of our resorts where there s a sales price in excess of tax basis); and tax planning strategies in making this assessment. Based upon the scheduled reversal of deferred tax liabilities, potential tax planning strategies, and projections of future taxable income over the periods in which the temporary differences are deductible, we believe it is more likely than not that we will realize the benefits of these deductible differences.



As of December 31, 2008, we had net operating loss carryforwards of approximately \$43,890 and \$43,603 for federal and state income tax purposes, respectively. These federal and state carryforwards begin expiring in 2024 and 2014, respectively. Based on our analysis, we believe all but \$6,620 of the net operating loss carryforwards related to the State of Ohio will be realized; therefore we have established a valuation allowance as of December 31, 2008 of \$366, the tax effected benefit of such state carryforward. The valuation allowance is included on the balance sheet as a reduction to deferred tax assets, which is included in Other Assets on our balance sheet. As of December 31, 2007, we had net operating loss carryforwards of approximately \$33,418 and \$38,026 for federal and state income tax purposes, respectively. These federal and state carryforwards begin expiring in 2024 and 2014, respectively. We believe all but \$5,879 of the net operating loss carryforwards related to the State of Ohio will be realized; therefore we have established a valuation allowance as of December 31, 2007 of \$325, the tax effected benefit of such state carryforward. The valuation allowance is included on the balance sheet in deferred tax liability.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The 2008 and 2007 income tax provisions include a deduction of \$126 and \$739, respectively, related to share-based compensation which was recorded as an increase in additional paid in capital.

**8. RELATED-PARTY TRANSACTIONS**

We rent office space for our headquarters location in Madison, Wisconsin from a company that is an affiliate of a member of our board of directors. Our total payments for rent and related expenses for this office space were \$304, \$325, and \$313 for the years ended December 31, 2008, 2007, and 2006, respectively, and are included in selling, general and administrative expenses on our consolidated statements of operations and comprehensive loss.

Our consolidated statements of operations and comprehensive loss includes fees of \$5,346, \$4,314 and \$3,729 from our investments in affiliates. These fees relate primarily to management, license, central reservation, development and construction fees.

**9. COMMITMENTS AND CONTINGENCIES**

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

*Letters of Credit* In connection with the construction of our Sheboygan, Wisconsin resort, we have supplied a \$2,000 letter of credit in favor of the City of Sheboygan. The letter of credit expires on December 31, 2009. There have been no draws on this letter of credit. We have made a \$2,000 deposit with a bank as collateral for this letter of credit. The deposit is considered restricted cash and is included in other assets on the consolidated balance sheets.

*Guarantees* We recognize guarantees in accordance with FASB Interpretation No. 45 (FIN 45), Guarantors' Accounting and Disclosure Requirements for Guarantees. FIN 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee.

In connection with the construction of our Sheboygan, Wisconsin resort, we entered into agreements with the City of Sheboygan and The Redevelopment Authority of the City of Sheboygan, Wisconsin (collectively, the City) whereby the City funded certain costs of construction. The City funded \$4,000 toward the construction of the resort and related public improvements and \$8,200 toward construction of a convention center connected to the resort.

In exchange for the \$4,000 funding, we guaranteed real and personal property tax payments over a fourteen-year period totaling \$16,400. This obligation is also guaranteed by three of our former members of senior management. The guarantee was entered into on July 30, 2003.

In exchange for the \$8,200 funding, we entered into a lease for the convention center with the City. The initial term of the lease is 25 1/2 years with fifteen, five-year renewal options. Under the lease, we will satisfy repayment of the \$8,200 funding by making guaranteed room tax payments totaling \$25,944 over the initial term of the lease. This obligation is also guaranteed by three of our former members of senior management. This guarantee was also entered into on July 30, 2003.

The debt related to the \$4,000 and \$8,200 fundings is included in the accompanying consolidated balance sheets; therefore, we have not recorded any liability related to the guarantees on those fundings.

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

*Commitments* We lease office space, storage space and office equipment under various operating leases that expire between 2009 and 2017. Most of the leases include renewal options. Future minimum payments on these operating leases are as follows:

2009	\$ 548
2010	334
2011	151
2012	131
2013	14
Thereafter	51
Total	\$ 1,229

Rent expense for the years ended December 31, 2008, 2007, and 2006 were \$708, \$488, and \$450, respectively.

We also have commitments on contracts to build our resorts under construction. Commitments on these contracts total \$20,722 for periods subsequent to December 31, 2008.

**10. RETIREMENT PLAN**

We maintain a 401(k) profit sharing plan for our employees. Eligibility for participation in the plan is based on an employee meeting certain minimum age and service requirements. Participants may make voluntary, pre-tax contributions through salary deferrals to the plan. Employer matching contributions are discretionary and are based on a percentage of employee contributions. Our contributions to the plan were \$432, \$336, and \$231 for the years ended December 31, 2008, 2007, and 2006, respectively.

**11. EQUITY**

*Deferred Compensation* We have a deferred compensation plan for certain of our employees. The plan allows for contributions by both the participants and us. Our employer contributions for the plan were \$43, \$54, and \$74 for the years ended December 31, 2008, 2007 and 2006, respectively.

*Earnings per Share* We calculate our basic earnings per common share by dividing net income (loss) available to common shareholders by the weighted average number of shares of common stock outstanding. Our diluted earnings per common share assumes the issuance of common stock for all potentially dilutive stock equivalents outstanding. In periods in which we incur a net loss, we exclude potentially dilutive stock equivalents from the computation of diluted weighted average shares outstanding, as the effect of those potentially dilutive items is anti-dilutive. We had 475,000, 987,000, and 1,064,500 total options outstanding at December 31, 2008, 2007 and 2006, respectively.

The trust that holds the assets to pay obligations under our deferred compensation plan has 11,765 shares of our common stock. In accordance with the provisions of EITF Issue No. 97-14, we treat those shares of common stock as treasury stock for purposes of our earnings per share computations and therefore we exclude



**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

them from our basic and diluted earnings per share calculations. Basic and diluted earnings per common share are as follows:

	<b>Year Ended December 31,</b>		
	<b>2008</b>	<b>2007</b>	<b>2006</b>
Net loss attributable to common shares	\$ (40,725)	\$ (9,581)	\$ (49,250)
Weighted average common shares outstanding basic and diluted	30,827,860	30,533,249	30,299,647
Net loss per share basic and diluted	\$ (1.32)	\$ (0.31)	\$ (1.63)

Options to purchase 475,000 shares of common stock were not included in the computations of diluted earnings per share for the year ended December 31, 2008, because the exercise price for the options were greater than the average market price of the common shares during that period. There were 94,069 shares of common stock that were not included in the computation of diluted earnings per share for the year ended December 31, 2008, because the market and/or performance criteria related to these shares had not been met at December 31, 2008.

**12. SHARE-BASED COMPENSATION**

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

We recognized \$222, \$5,080, and \$3,559, net of estimated forfeitures, in share-based compensation expense for the years ended December 31, 2008, 2007 and 2006, respectively. The total income tax benefit recognized related to share-based compensation was \$54, \$2,073 and \$1,424 for the years ended December 31, 2008, 2007, and 2006, respectively. We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the requisite service period of each award recipient. As of December 31, 2008, total unrecognized compensation cost related to share-based compensation awards was \$2,241, which we expect to recognize over a weighted average period of approximately 3.1 years.

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,520 options, stock appreciation rights or shares of our common stock to employees and directors. At December 31, 2008, there were 2,091,333 shares available for future grants under the Plan.

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

***Stock Options***

We have granted non-qualified stock options to purchase our common stock under the Plan at prices equal to the fair market value of the common stock on the grant dates. The exercise price for certain options granted under the plans

may be paid in cash, shares of common stock or a combination of cash and shares. Stock options expire ten years from the grant date and vest ratably over three years.

We recorded stock option expense of \$111, \$1,524 and \$1,776 for the years ended December 31, 2008, 2007 and 2006, respectively. There were no stock options granted in 2008 or 2007. We granted 15,000 stock options during the year ended December 31, 2006. The per share weighted average fair value of stock options

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

granted during the year ended December 31, 2006 was \$6.00. We estimated the fair value of each stock option on the date of grant using the Black-Scholes pricing model and the following assumptions:

	<b>Year Ended December 31, 2006</b>
Dividend yield	
Weighted average, risk free interest rate	4.33%
Weighted average, expected life of option	6.0 years
Expected stock price volatility	39.83%

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the U.S. Treasury note rate at the beginning of the period. The weighted average expected live of our options is based on the simplified calculation allowed under SFAS 123(R). Due to our formation in December 2004, our expected stock price volatility is estimated using daily returns data for the five-year period ending on the grant date for a group of peer companies.

A summary of stock option activity during the years ended December 31, 2008, 2007, and 2006 is:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>
Number of shares under option:			
Outstanding at January 1, 2006	1,471,834	\$ 17.45	
Granted	15,000	\$ 13.18	
Exercised			
Forfeited	(422,334)	\$ 17.03	
Outstanding at December 31, 2006	1,064,500	\$ 17.55	8.05 years
Granted			
Exercised	(167)	\$ 12.40	
Forfeited	(77,333)	\$ 20.87	
Outstanding at December 31, 2007	987,000	\$ 17.29	7.03 years
Granted			
Exercised			
Forfeited	(512,000)	\$ 17.01	
Outstanding at December 31, 2008	475,000	\$ 17.59	6.09 years



Exercisable at December 31, 2008	470,000	\$	17.64	6.00 years
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At December 31, 2008 and 2007, all of our option grant prices were above our stock price. Therefore there was no intrinsic value for our outstanding or exercisable shares at December 31, 2008 or 2007. The intrinsic value of our outstanding stock options and exercisable stock options was \$12 and \$0, respectively, at December 31, 2006.

***Market Condition Share Awards***

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

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We granted 84,748, 215,592 and 81,820 market condition share awards during the years ended December 31, 2008, 2007 and 2006, respectively. We recorded share based compensation expense of \$(132), \$779 and \$482 for the years ended December 31, 2008, 2007 and 2006, respectively. Included in the 2008 amount were reversals of expense related to the resignation of two senior officers in 2008, as the service condition of these shares was not met.

Of the 2008 market condition shares granted:

84,748 are based on our common stock's performance in 2008 relative to a stock index, as designated by the Compensation Committee of the Board of directors. These shares vest ratably over a three-year period, 2008-2010. The per share fair value of these market condition shares was \$1.63.

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

Dividend yield	
Weighted average, risk free interest rate	2.05%
Expected stock price volatility	34.98%
Expected stock price volatility (small-cap stock index)	20.08%

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate was based on the one-year T-bill rate. Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date. The expected stock price volatility for the small cap stock index was estimated using daily returns data for a two-year period ending on the grant date. Due to the resignation of a senior officer in 2008, 55,046 shares were forfeited.

Of the 2007 market condition shares awards granted:

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

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

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

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

Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date. The expected stock price volatility for the small cap stock index was estimated using daily returns data for a two-year period ending on the grant date.

Based on our common stock performance in 2007, employees did not earn any of these market condition shares. As a result, we recorded the entire fair value of the grant as expense in 2007.

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

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the four-year T-bill rate. Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date. Due to the resignation of two senior officers in 2008, 58,628 shares were forfeited.

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

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

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

We used an expected dividend yield of 0% as we do not currently pay a dividend and do not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate is based on the four-year T-bill rate. Our expected stock price volatility was estimated using daily returns data of our stock for a two-year period ending on the grant date. The expected stock price volatility for the small cap stock index was estimated using daily returns data for a two-year period ending on the grant date. Due to the resignation of two senior officers in 2008, 58,628 shares were forfeited.

Of the 2006 market condition shares awards granted:

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

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

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

***Performance Share Awards***

Certain employees are eligible to receive shares of our common stock in payment of performance share awards granted to them. We granted 37,386, 23,149 and 27,273 performance shares during the years ended December 31, 2008, 2007 and 2006, respectively. Shares granted in 2008 vest over a three year period, 2008-2010; shares granted in 2007 vest ratably over a three year period, 2007-2009; shares granted in 2006 vested upon issuance. Grantees of performance shares are eligible to receive shares of our common stock based on the achievement of certain individual and departmental performance criteria during the calendar year. The per share fair value of performance shares granted during the years ended December 31, 2008, 2007 and 2006, was \$7.09, \$13.10 and \$11.03, respectively, which represents the fair value of our common stock on the grant date. We recorded share based compensation expense of \$51, \$101 and \$310 for the years ended December 31, 2008, 2007 and 2006, respectively.

Based on their achievement of certain individual and departmental performance goals:

Employees earned and were issued 18,084 performance shares in February 2009 related to the 2008 grants,

Employees earned and were issued 20,843 performance shares in February 2008 related to the 2007 grants, and

Employees earned and were issued 17,949 performance shares in February 2007 related to the 2006 grants.

As a result, we recorded a reduction in expense of \$10 and \$103 during the years ended December 31, 2008 and 2007, respectively, related to the shares not issued.

***Deferred Compensation Awards***

Pursuant to their employment arrangements, certain executives received bonuses upon completion of our IPO. Executives receiving bonus payments totaling \$2,200 elected to defer those payments pursuant to our deferred compensation plan. To satisfy this obligation, we contributed 129,412 shares of our common stock to the trust that holds the assets to pay obligations under our deferred compensation plan. The fair value of that stock at the date of contribution was \$2,200. In accordance with the provisions of EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we have recorded the fair value of the shares of common stock, at the date the shares were contributed to the trust, as a reduction of our stockholders' equity. Also, as prescribed by EITF Issue No. 97-14, we account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded share based compensation expense (revenue) of \$(893), \$(537) and \$472, for the years ended December 31, 2008, 2007 and 2006, respectively.

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

***Non-vested Shares***

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

**Table of Contents****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

A summary of non-vested shares activity for the years ended December 31, 2008, 2007, and 2006 is as follows:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested shares balance at January 1, 2006	15,000	\$ 10.09
Granted	236,000	\$ 11.60
Forfeited	(3,000)	\$ 11.77
Vested	(3,000)	\$ 10.09
Non-vested shares balance at December 31, 2006	245,000	\$ 11.08
Granted	143,711	\$ 13.47
Forfeited	(5,000)	\$ 10.79
Vested	(50,600)	\$ 11.53
Non-vested shares balance at December 31, 2007	333,111	\$ 12.37
Granted	210,799	\$ 6.78
Forfeited	(162,008)	\$ 10.91
Vested	(81,653)	\$ 12.14
Non-vested shares balance at December 31, 2008	300,249	\$ 9.29

There was no intrinsic value of our shares at December 31, 2008, 2007 or 2006.

We recorded share based expense of \$657, \$963, and \$519 for the years ended December 31, 2008, 2007, and 2006, respectively.

***Vested Shares***

We have an annual short-term incentive plan for certain employees that provides them the potential to earn cash bonus payments. For 2008 and 2007, certain of these employees had the option to elect to have some or all of their annual bonus compensation paid in the form of shares of our common stock rather than cash. Employees making this election received shares having a market value equal to 125% of the cash they would otherwise receive. Shares issued in lieu of cash bonus payments are fully vested upon issuance. We recorded expense of \$32 and \$2,353 during the years ended December 31, 2008 and 2007, respectively, related to our short-term incentive plan. In connection with the elections related to 2008 bonus amounts, we issued 17,532 shares in February 2009. We valued these shares at \$32 based on the closing market value of our common stock on the date of the grant. In connection with the elections related to 2007 bonus amounts, we issued 265,908 shares in February 2008. We valued these shares at \$2,055 based on the closing market value of our common stock on the date of the grant.



In 2008, our directors had the option to elect to have some or all of the cash portion of their annual fees paid in the form of shares of our common stock rather than cash. Directors making this election received shares having a market value equal to 125% of the cash they would otherwise receive. Shares issued in lieu of cash fee payments are fully vested upon issuance. We recorded non-cash professional fees expense of \$437 for the year ended December 31, 2008, related to these elections to receive shares in lieu of cash. We issued 118,823 shares during the year ended December 31, 2008, respectively. We had no similar issuances of stock for director compensation in 2007 or 2006.

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13. QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following tables sets forth certain items included in our consolidated financial statements for each quarter of the years ended December, 31, 2008 and 2007.

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>2008:</b>				
Total Revenues	\$ 64,208	\$ 63,018	\$ 69,413	\$ 48,899
Net operating income (loss)	4,062	51	9,763	(39,542)
Net income (loss)	(2,327)	(4,090)	2,171	(36,479)
Basic earnings (loss) per share	\$ (0.08)	\$ (0.13)	\$ 0.07	\$ (1.18)
Diluted earnings (loss) per share	\$ (0.08)	\$ (0.13)	\$ 0.07	\$ (1.18)

	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>2007:</b>				
Total Revenues	\$ 48,459	\$ 46,292	\$ 50,898	\$ 41,931
Net operating income (loss)	(745)	811	5,637	(8,586)
Net income (loss)	(2,005)	(1,656)	1,761	(7,681)
Basic earnings (loss) per share	\$ (0.07)	\$ (0.05)	\$ 0.06	\$ (0.25)
Diluted earnings (loss) per share	\$ (0.07)	\$ (0.05)	\$ 0.06	\$ (0.25)

The following is a summary of the significant fourth quarter adjustments for our fiscal year 2008:

Impairment loss on investment in affiliates	\$ 18,777
Goodwill impairment	17,430
	\$ 36,207

See Footnotes 2 and 3 for further discussion of these adjustments.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

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

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

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

We carried out an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the fourth quarter of 2008. In making this evaluation, we considered matters discussed below relating to internal control over financial reporting. After consideration of the matters discussed below, we have concluded that our disclosure controls and procedures were effective as of December 31, 2008.

**Management's Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining adequate and effective internal control over financial reporting. Internal control over financial reporting refers to the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our Board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles, and includes those policies and procedures that:

Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company;

Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of our management and directors; and

Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Internal control over financial reporting cannot provide absolute assurance for the prevention or detection of misstatements within our financial reporting because of its inherent limitations. Internal control over financial reporting is a process that involves human judgment and requires diligence and compliance to prevent errors. Internal control over financial reporting can also be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis. However, these inherent limitations are known features of the financial reporting process and it is possible to design safeguards to reduce, though not eliminate, this risk. Our management has used the framework set forth in the report entitled *Internal Control-Integrated Framework* published by the Committee of Sponsoring Organizations of the Treadway Commission to evaluate the effectiveness of our internal control over financial reporting.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control - Integrated Framework*, management concluded that our internal control over financial reporting was effective as of December 31, 2008.

The effectiveness of our internal control over financial reporting as of December 31, 2008 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which is included herein.

**Changes in Internal Control**

There were no changes in internal control over financial reporting that occurred during the fourth quarter of 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Stockholders  
Great Wolf Resorts, Inc.

We have audited Great Wolf Resorts, Inc.'s (a Delaware Corporation) and subsidiaries (the Company) internal control over financial reporting of as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides reasonable basis for our opinion.

A company's internal control over financial reporting is a process 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of the Company as of and for the year ended December 31, 2008 and our report dated March 5, 2009 expressed an unqualified opinion on those consolidated financial statements.

/s/ GRANT THORNTON LLP  
Madison, Wisconsin  
March 5, 2009



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**ITEM 9B. *OTHER INFORMATION***

None.

**PART III**

**ITEM 10. *DIRECTORS, EXECUTIVE OFFICER AND CORPORATE GOVERNANCE***

This information is hereby incorporated by reference to our 2009 Proxy Statement (under the headings *The Election of Directors*, *The Executive Officers*, *Corporate Governance* and *Section 16(A) Beneficial Ownership Compliance* ).

**ITEM 11. *EXECUTIVE COMPENSATION***

This information is hereby incorporated by reference to our 2009 Proxy Statement (under the headings *Executive Compensation*, *Compensation Committee Interlocks and Insider Participation* and *Compensation of Directors* ).

**ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

This information is hereby incorporated by reference to our 2009 Proxy Statement (under the headings *Ownership Of Our Common Stock* and *Equity Compensation Plan Information* ).

**ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

This information is hereby incorporated by reference to our 2009 Proxy Statement (under the heading *Certain Relationships And Related Transactions* ).

**ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES***

This information is hereby incorporated by reference to our 2009 Proxy Statement (under the heading *Relationship With Independent Public Accountants* ).

**ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES***

*(a)(1) Financial Statements*

The financial statements included in this Annual Report on Form 10-K are provided under Item 8.

*(a)(2) Financial Statement Schedules*

All schedules are omitted since the required information is not present in amounts sufficient to require submission to the schedule or because the information required is included in the financial statements and notes thereto.

*(a)(3) Exhibits*

See Index to Exhibits.





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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GREAT WOLF RESORTS, INC.

/s/ KIMBERLY K. SCHAEFER

Kimberly K. Schaefer  
Chief Executive Officer

Dated: March 5, 2009

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<b>Signature</b>	<b>Title</b>	<b>Date</b>
/s/ Kimberly K. Schaefer Kimberly K. Schaefer	Chief Executive Officer (Principal Executive Officer) and Director	March 5, 2009
/s/ James A. Calder James A. Calder	Chief Financial Officer (Principal Financial and Accounting Officer)	March 5, 2009
/s/ Joseph V. Vittoria Joseph V. Vittoria	Chairman of the Board and Director	March 5, 2009
/s/ Elan Blutinger Elan Blutinger	Director	March 5, 2009
Randy L. Churchey	Director	March 5, 2009
/s/ Steven D. Hovde Steven D. Hovde	Director	March 5, 2009
/s/ Michael M. Knetter Michael M. Knetter	Director	March 5, 2009

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/s/ Richard T. Murray III	Director	March 5, 2009
Richard T. Murray III		
Edward H. Rensi	Director	March 5, 2009
/s/ Howard A. Silver	Director	March 5, 2009
Howard A. Silver		

**Table of Contents****INDEX TO EXHIBITS**

The exhibits listed below are incorporated herein by reference to prior SEC filings by Registrant or are included as exhibits in this Annual Report on Form 10-K.

<b>Exhibit Number</b>	<b>Description</b>
2.1	Form of Merger Agreement (Delaware) (incorporated herein by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
2.2	Form of Merger Agreement (Wisconsin) (incorporated herein by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
3.1	Form of Amended and Restated Certificate of Incorporation for Great Wolf Resorts, Inc. dated December 9, 2004 (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
3.2	Form of Amended and Restated Bylaws of Great Wolf Resorts, Inc. effective September 12, 2007 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form S-1 filed September 18, 2007)
4.1	Form of the Common Stock Certificate of Great Wolf Resorts, Inc. (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed October 21, 2004)
4.2	Junior Subordinated Indenture, dated as of March 15, 2005, between Great Wolf Resorts, Inc. and JPMorgan Chase Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 18, 2005)
4.3	Amended and Restated Trust Agreement, dated as of March 15, 2005, by and among Chase Manhattan Bank USA, National Association, as Delaware trustee; JPMorgan Chase Bank, National Association, as property trustee; Great Wolf Resorts, Inc., as depositor; and James A. Calder, Alex G. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 18, 2005)
10.1	License Agreement, dated January 30, 2004, by and between The Great Lakes Companies, Inc. and Jim Pattison Entertainment Ltd. (incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form S-1 filed September 23, 2004)
10.2	Development Agreement, dated as of July 30, 2003, among the City of Sheboygan, Wisconsin, the Redevelopment Authority of the City of Sheboygan, Wisconsin, The Great Lakes Companies, Inc., Blue Harbor Resort Sheboygan, LLC, and Blue Harbor Resort Condominium, LLC (incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
10.3	First Amendment to the Development Agreement, dated June 25, 2004, by and among the City of Sheboygan, Wisconsin, the Redevelopment Authority of the City of Sheboygan, Wisconsin, The Great Lakes Companies, Inc., Blue Harbor Resort Sheboygan, LLC, and Blue Harbor Resort Condominium, LLC (incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
10.4	Tall Pines Exclusive License and Royalty Agreement, dated July 25, 2004, between Tall Pines Development Corporation and The Great Lakes Companies, Inc. (incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-1 filed December 7, 2004)
10.5+	Form of Employment Agreement (incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-1 filed December 7, 2004)
10.6	Registration Statement on Form S-1 filed January 21, 2005) Form of Noncompete Agreement, Trade Secret and Confidentiality Agreement (incorporated herein by reference to Exhibit 10.6 to the

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- Company's Registration Statement on Form S-1 filed January 21, 2005)
- 10.7 Form of Officers and Directors Indemnification Agreement (incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
- 10.8+ Form of Indemnity Agreement (incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-1 filed September 23, 2004)
- 10.9+ Form of Great Wolf Resorts, Inc. Employee Stock Purchase Plan (incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
- 10.10+ Form of Great Wolf Resorts, Inc. 2004 Incentive Stock Plan (incorporated herein by reference to Exhibit 10.10 to the Company's Registration Statement on Form S-1 filed November 26, 2004)
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<b>Exhibit Number</b>	<b>Description</b>
10.11+	Form of Great Wolf Resorts, Inc. Deferred Compensation Plan (incorporated herein by reference to Exhibit 10.11 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
10.12	Loan Agreement by and among Great Wolf Resorts, Inc., Citigroup Global Markets Realty Corp. and The Travelers Insurance Company (incorporated herein by reference to Exhibit 10.16 to Company's Registration Statement on Form S-1 filed January 21, 2005)
10.13	Purchase Agreement, dated as of March 15, 2005, among Great Wolf Resorts, Inc., Great Wolf Capital Trust I, Taberna Preferred Funding I, Ltd and Merrill Lynch International (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed March 18, 2005)
10.14	Venture formation and Contribution Agreement dated October 3, 2005, among Great Wolf Resorts, Inc., Great Bear Lodge of Wisconsin Dells, LLC, Great Bear Lodge of Sandusky, LLC, and CNL Income Partners, LP (incorporated herein by reference to Exhibit 10.1 to the Company's current Report on Form 8-K filed October 7, 2005).
10.15	Loan Agreement dated March 1, 2007, among CNL Income GW WI-Del, LP and CNL Income GW Sandusky, LP, as borrowers, and NSPL, Inc., as lender (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed March 2, 2007).
10.16	Loan Agreement dated July 28, 2007, among Great Wolf Lodge of Grapevine, LLC, as borrower, and Merrill Lynch Capital and HSH Nordbank, as lenders (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed July 31, 2007).
10.17	Loan Agreement dated December 6, 2007, between Great Wolf Lodge of the Poconos, LLC, as borrower, and Citigroup Global Markets Realty Corp., as lender (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed December 13, 2007).
10.18	Loan Agreement dated February 6, 2008, between Great Wolf Lodge Williamsburg SPE, LLC, as borrower, and Citigroup Global Markets Realty Corp., as lender (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed February 8, 2008).
10.19	Loan Agreement dated April 30, 2008, among Great Wolf Lodge of the Carolinas, LLC, as borrower, Marshall Financial Group, as administrative agent, and the several banks and other financial institutions from time to time party thereto, as lenders (incorporated herein by reference to Exhibit 1.1 to the Company's Current Report on Form 8-K filed May 6, 2008).
10.20*	The Hovde Building Lease, dated September 1, 1997, as amended by amendments dated July 2, 2002, February 12, 2004, April 23, 2004, August 11, 2004, and January 22, 2009.
21.1*	List of Subsidiaries
23.1*	Consent of Grant Thornton LLP
23.2*	Consent of Deloitte & Touche LLP
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

\* Filed herewith.

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