

Great Wolf Resorts, Inc.
Form 10-K
February 23, 2012
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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, 2011

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)

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Delaware
(State or other jurisdiction of
incorporation or organization)
525 Junction Rd. Suite 6000 South
Madison, Wisconsin 53717
(Address of principal executive offices)
51-0510250
(I.R.S. Employer
Identification No.)
53717
(Zip Code)
Registrant's telephone number, including area code
(608) 662-4700

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

Indicate by check mark 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 Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

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

As of June 30, 2011, the aggregate market value of the voting and non-voting common equity held by non-affiliates was approximately \$79,191,175 based on the closing price on the NASDAQ Global Market for such shares.

The number of shares outstanding of the issuer's common stock was 32,908,237 as of February 23, 2012.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement for the 2011 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, 2012.

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Annual Report on Form 10-K
For the Year Ended December 31, 2011

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PART I

ITEM 1. BUSINESS
OVERVIEW AND DEVELOPMENT

The terms Great Wolf Resorts, us, we, our and Company 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, licensor, operator and developer in North America of drive-to destination family resorts featuring indoor waterparks and other family-oriented entertainment activities based on the number of resorts in operation. Each of our resorts feature approximately 300 to 600 family suites, each of which sleeps from six to ten people and includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our primary 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. Several of our resorts have significant meeting space or conference centers, allowing us to also attract groups in addition to our leisure guests. Our resorts are open year-round and provide a consistent, comfortable environment where our guests can enjoy our various amenities and activities. We operate and license resorts under our Great Wolf Lodge® brand name. We own and operate several of the resorts in our portfolio; we have also entered into licensing and management arrangements with third parties relating to the operation of resorts under the Great Wolf Lodge brand name.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms (which includes admission to our indoor waterpark), and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, ice cream shop and confectionery, full-service adult spa, kid spa, game arcade, gift shop, miniature golf, interactive game attraction, family tech center and meeting space. We also generate revenues from licensing fees, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

Each of our Great Wolf Lodge resorts has a Northwoods lodge theme, designed in a Northwoods cabin motif with exposed timber beams, massive stone fireplaces, Northwoods creatures including mounted wolves and an animated two-story Clock Tower that provides theatrical entertainment for younger guests. All of our guest suites are themed luxury suites, ranging in size from approximately 385 square feet to 925 square feet.

The indoor waterparks in our Great Wolf Lodge resorts range in size from approximately 34,000 to 84,000 square feet and include decorative rockwork and plantings. The focus of each Great Wolf Lodge waterpark is our signature 12-level treehouse water fort, an interactive water experience for the entire family that features over 60 water effects and is capped by an oversized bucket that dumps between 700 and 1,000 gallons of water every five minutes. Our waterparks also feature a combination of high-speed body slides and inner tube waterslides, smaller and lower speed slides for younger children, zero-depth water activity pools with geysers, a water curtain, fountains and tumble buckets, a lazy river, additional activity pools for basketball, open swimming and other water activities and large free-form hot tubs, including hot tubs for adults only.

We own a 62.4% equity interest in Creative Kingdoms (CK). CK is a developer of experiential gaming products including MagiQuest®, an interactive game attraction available at ten of our resorts. CK also owns or has sold to other parties several stand-alone MagiQuest facilities or similar attractions.

Financial information regarding our reportable segments during 2011 is included in Note 2 of our Notes to Consolidated Financial Statements.

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As innovators in our industry segment, we constantly seek to improve the facilities, amenities, attractions and features at our resorts to enhance our guests' vacation experience, generate additional on-site revenue and increase repeat and referral business. We refer to our original resort properties as Generation I resorts. The Generation I properties were opened in 2003 or earlier and are relatively small properties with 300 rooms or less. Since 2004, we have successfully developed seven Great Wolf Lodge properties, which we refer to as Generation II resorts. Our Generation II resorts have approximately 400 rooms or more and a wider range of amenities than our Generation I resorts.

The following table summarizes our Generation I and Generation II Great Wolf Lodge properties as of December 31, 2011:

| Type | Locations | Description | Same Store 2011 Operating Statistics | | | Total RevPOR |
|---------------|----------------------|--|--------------------------------------|-----------|-----------|--------------|
| | | | Occupancy | ADR | RevPAR | |
| Generation I | Wisconsin Dells, WI | Approximately 300 or fewer rooms, smaller waterparks and fewer and smaller other amenities | 56.1% | \$ 201.09 | \$ 112.77 | \$ 302.77 |
| | Sandusky, OH | | | | | |
| | Traverse City, MI | | | | | |
| | Kansas City, KS | | | | | |
| Generation II | Williamsburg, VA | Approximately 400 rooms or more and a wider range of amenities | 66.0% | \$ 279.05 | \$ 184.15 | \$ 424.84 |
| | Pocono Mountains, PA | | | | | |
| | Niagara Falls, ONT | | | | | |
| | Mason, OH | | | | | |
| | Grapevine, TX | | | | | |
| | Grand Mound, WA | | | | | |
| Concord, NC | | | | | | |

In June 2010 we acquired a 62.4% equity interest in Creative Kingdoms, LLC (CK) in exchange for all of the \$8,700 principal balance, plus accrued interest of approximately \$1,300, of convertible indebtedness owed to us by Creative Kingdoms. Creative Kingdoms is a developer of experiential gaming products including MagiQuest, an interactive game attraction available at ten of our resorts. Creative Kingdoms also licenses or has sold to other parties several stand-alone MagiQuest facilities or similar attractions.

In June 2010 we announced that we have executed license and management agreements related to the development of a new 600-suite Great Wolf Lodge resort in Garden Grove, California's world famous International West Resort. When and if completed, the new resort will be located less than two miles from Disneyland, near Anaheim and Los Angeles. It is proposed to be developed by McWhinney, a diversified real estate company. When and if completed, we will receive license fees for use of the Great Wolf Lodge brand name and other intellectual property at the resort, and will receive management fees to operate the resort on behalf of the owner. We expect that the resort will be owned by a joint venture, with Great Wolf Resorts receiving a minority equity interest for its development-related services. Additionally, the City of Garden Grove will contribute cash and bond proceeds to the resort, as well as establish a financing district to develop an adjacent parking structure.

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The following table presents an overview of our portfolio of resorts. As of December 31, 2011, we operated, managed and/or were party to licensing arrangements relating to the operation of 11 Great Wolf Lodge resorts (our signature Northwoods-themed resorts). We anticipate that most of our future resorts will be licensed and/or developed under our Great Wolf Lodge brand, but we may operate and/or enter into licensing arrangements with other resorts using different brands in appropriate markets.

| | Ownership Percentage | Opened | Number of Guest Suites | Indoor Entertainment Area(1) (Approx. sq. ft) |
|-------------------------|----------------------|--------|------------------------|---|
| Wisconsin Dells, WI(3) | | 1997 | 385(2) | 102,000 |
| Sandusky, OH(3) | | 2001 | 271 | 41,000 |
| Traverse City, MI | 100% | 2003 | 280 | 57,000 |
| Kansas City, KS | 100% | 2003 | 281 | 57,000 |
| Williamsburg, VA(4) | 100% | 2005 | 405 | 87,000 |
| Pocono Mountains, PA(4) | 100% | 2005 | 401 | 101,000 |
| Niagara Falls, ONT(5) | | 2006 | 406 | 104,000 |
| Mason, OH(4) | 100% | 2006 | 401 | 105,000 |
| Grapevine, TX(4) | 100% | 2007 | 605 | 110,000 |
| Grand Mound, WA(6) | 49% | 2008 | 398 | 74,000 |
| Concord, NC(4) | 100% | 2009 | 402 | 97,000 |

- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room, family tech center, MagiQuest® (an interactive game attraction) and fitness room, as well as our spa in the resorts that have such amenities.
- (2) Total number of guest suites includes 77 condominium units that are individually owned by third parties and managed by us.
- (3) These properties are owned by CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties. We currently manage both properties and license the Great Wolf Lodge brand to these resorts.
- (4) Five of our properties (Great Wolf Lodge resorts in Williamsburg, VA; Pocono Mountains, PA; Mason, OH; Grapevine, TX and Concord, NC) each had a book value of fixed assets equal to ten percent or more of our total assets as of December 31, 2011 and each had total revenues equal to ten percent or more of our total revenues for the year ended December 31, 2011.
- (5) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016.
- (6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We manage 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 the United States Department of the Interior, which is trustee for Chehalis.

On March 24, 2011 we sold our resort operated under our Blue Harbor Resort brand name in Sheboygan, WI. We continue to license the Blue Harbor Resort and related trade names to the buyer at no fee. As of March 24, 2011, we no longer operated this resort or managed the condominium units there.

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 log 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 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.

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Guest Suites. All of our guest suites are themed luxury suites, ranging in size from approximately 385 square feet to 925 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 resort and the Grand Mound resort we operate include this type of amenity. Our resorts offer up to 11 room styles to meet the needs and preferences of our guests, including a selection of rooms with lofts, Jacuzzis and fireplaces. Our standard rooms include two queen beds and a third queen bed in the sleeper sofa, a wet bar, microwave oven, refrigerator and dining and sitting area, and can accommodate up to six people. Our specialty rooms can accommodate up to seven people and provide a separate area for children, including our KidCabin[®] suites that feature a log cabin bunk bed room, our Wolf Den Suites[™] that feature a themed den enclosure with bunk beds and our KidKamp[™] suites that feature bunk beds in a themed tent enclosure. We also offer larger rooms, such as our Majestic Bear Suite[™] and Grizzly Bear Suite[™], which have separate bedrooms with a king bed, a large dining and living area and can accommodate up to eight people. For business travelers we also offer Luxury King Suites that have a king bed and a 32" television. 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.

Indoor Waterparks. Our 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 water fort. The water fort 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 approximately every five minutes.

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 and lower-speed 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 to minimize slipping and has ample deck space and good sight lines to facilitate parental oversight.

On average, approximately one to two million gallons of water cycles 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 2- 4% of the resort's revenues, depending on the age of the resort. 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.

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

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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 9:00 a.m. until 9:00 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, allows our guests to avoid the long lines and other inconveniences of daily admission-based waterparks.

Amenities. Each of our resorts features a combination of the following amenities. Some of the amenities described below have different names at certain of our Great Wolf Lodge resorts.

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.

Ice Cream Shop and Confectionery. Each of our Great Wolf Lodge resorts has a Bear Paw Sweets & Eats™ ice cream shop and confectionery that provides sandwiches, coffee, pastries, ice cream, candies, home-made fudge and other snacks that families can share together.

Coffee Shop. Some of our resorts have a separate coffee shop that offers Starbucks® or Dunkin Donuts® coffee, as well as other pastry items provided by those brands.

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 gift shop that provides distinctive 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 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 Northern Lights Arcade range in size from approximately 5,000 to 8,000 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.

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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.

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.

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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 resort and the resort we license in Niagara Falls.

Conference Facility. Many of our resorts feature conference facility space. Our Traverse City, Williamsburg, Mason, Grapevine and Concord resorts and the Grand Mound resort we operate feature conference facilities that range in size from 10,000 to 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.

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

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

gr8_space®. Five of our resorts feature an approximately 1,000 square foot interactive family tech center, gr8_space, which 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.

Business and Growth Strategies

Our primary business objective is to increase long-term stockholder value by executing our growth strategies, which include:

Leveraging Our Competitive Advantages and Increasing Domestic Geographic Diversification through a Licensing-Based Resort Business Model and Joint Venture Resort Investments in Target Markets. We are seeking to grow our business and diversify our domestic resort geographic brand footprint in a capital-efficient manner primarily through a licensing-based business model. This business model is designed to further exploit our competitive advantages of being the first-mover in the indoor waterpark resort business, our strong brand equity and our waterpark resort management expertise by seeking opportunities to earn fees through licensing our brand and managing resorts that are constructed, converted and/or developed primarily by third-party owners. We may also seek to make minority investments in joint ventures that own most of the licensed resorts in order to share in any equity appreciation and profits of those resorts. Our proposed transaction to license and manage a new Great Wolf Lodge resort in Garden Grove, California, is an example of a transaction under this strategy. We believe this business model will allow us to deploy our capital resources more efficiently, reduce our overall leverage and diversify our operations geographically, since we will not be fully responsible for the construction and ownership of the licensed resorts, and will generally not be required to incur associated mortgage or construction debt. In addition, this business model is designed to allow us to expand more quickly domestically, reducing our sensitivity to economic conditions affecting any single region.

Expanding Our Brand Footprint Internationally. We also seek to use our licensing-based business model to efficiently expand our business internationally. Similar to our arrangement with Ripley's in Niagara Falls, Ontario, we seek to enter into license and/or management agreements with reputable companies that have local market knowledge in order to increase revenues and expand the international footprint of our Great Wolf Lodge brand. We may also seek to make strategic minority joint venture investments in the licensed resorts in order to share in the profits and equity appreciation of the resorts. We believe this model is the most efficient strategy for international expansion, since it enables us to leverage the local expertise of joint venture partners while minimizing our capital investment.

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Selective Sales/Dispositions 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 in our former CNL joint venture. In addition, in situations where the market value of one of our owned resorts is less than the principal amount of the loan secured by that resort, we may address such an overleveraged situation by seeking a modification of the loan; in situations where we cannot achieve a satisfactory modification of such a loan, we may choose to transfer the property to the lender in satisfaction of the loan balance. We expect to continue to manage and/or license our Great Wolf Lodge branded resorts, and we will consider transactions that allow us to maintain our management/licensing agreement at a resort while realizing value through our selective sales or other dispositions. In those situations where we sell partial or whole ownership interests, we expect to recycle capital generated by such transactions for investment in future growth opportunities or reduction of existing debt balances.

Expanding and Enhancing Existing Resorts. We will seek to continue to focus on growth opportunities at our existing resorts by adding revenue-enhancing features that drive ancillary vacation spending and meet our target returns, including non-water based attractions and food and beverage outlets. We also intend to continue to evaluate incremental revenue-generating opportunities, such as expanding the number of rooms at certain of our resorts.

Continuing 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. We are currently exploring several new concepts that, we believe, will allow us to generate additional revenue without requiring significant capital investment. Among these concepts is an adaptive re-use model, pursuant to which we would license the right to use entertainment features currently used in Great Wolf resorts to existing, full-service hotels, featuring family-oriented activities. While these concepts are still in the initial stages of development, we are seeking to innovatively extend our brand and to take these concepts to market.

Maximizing Total Resort Revenues. We will continue to employ aggressive yield management techniques and sales and marketing efforts designed to maximize occupancy and room rates at both our owned and managed resorts. During off-peak times (generally in May and September, and during the middle of weeks when schools are in session), we will seek to maintain higher occupancy by holding special events and targeting group sales and conferences. We will also seek to maximize other on-site revenue, such as food and beverage, entertainment and merchandise revenue through themed restaurants, ice cream shops, snack shops, adult and kid spas, gift shops, game arcades, MagiQuest, mini-golf and teen-themed areas. 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.

Minimizing Total Resort Costs. We will seek to reduce operating costs by leveraging our purchasing power with respect to operating supplies, food and beverage, insurance and employee benefits. By centralizing certain of our services, we also seek to reduce our per-unit costs, increasing our control over those services in order to deliver a greater quality of service to our guests and employees. Our centralized reservations system is scalable and, together with our web-based reservations system, enables us to efficiently handle high reservation volumes and which we expect to require only limited additional incremental costs over the next several years as we increase our portfolio of resorts.

Building Upon Our Existing Brand Awareness and Loyalty. Our Great Wolf Lodge brand is recognizable by our guests because of our distinctive and easily identifiable theming, from our signature treehouse water fort, to our mascots and distinctive logos and merchandise. We believe we have fostered strong guest and brand loyalty, which is evidenced by our 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.

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Expanding Operations of Creative Kingdoms. We will seek to work with the management of Creative Kingdoms to expand that company's operations and capitalize on their significant experience in developing experiential, family-based entertainment products. We believe that Creative Kingdoms' current and potential future products have potential uses in venues other than our indoor waterpark resorts, and we expect to support Creative Kingdoms in their sales and marketing efforts as they look to expand the number of locations using their MagiQuest and other experiential gaming products.

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:

Significant barriers to entry with an established first mover advantage. We strive to be the first operators of family entertainment resorts featuring indoor waterparks in our selected target markets, and our resorts have typically been the first resorts to open in their respective markets. Our experience in establishing 11 family-focused resorts and the economies of scale resulting from our current operation of multiple resorts provide us with the ability to move into a selected target market quickly. We believe there are significant barriers to entry in our industry segment that discourage others from developing similar resorts, including operational complexity, substantial capital requirements, availability of suitable sites in desirable markets and a challenging, multi-year permitting process. A new Great Wolf Lodge resort built through ground-up construction typically costs in excess of \$120,000 and takes from one to three years to develop and permit, and an additional 18 months or more to build. We believe that the combination of our first mover advantage, existing economies of scale and the significant barriers to entry in our target markets provide us with a competitive advantage.

Strong brand name awareness. Our Great Wolf Lodge brand name is well recognized in our industry. We are the largest owner, licensor and operator of family entertainment resorts with indoor waterparks in North America based on the number of resorts in operation. Our Great Wolf Lodge brand is symbolized by our distinctive and easily identifiable theming, from our signature treehouse water fort, to our mascots and recognizable logos and merchandise. We believe that our strong brand awareness has helped foster strong guest and brand loyalty, which is evidenced by 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.

Resilient business model. Our business model generally targets customers within a three-hour driving radius of our resorts. We believe recent vacation trends favor our business model as families increasingly choose to take shorter, more frequent vacations within driving distance of their homes. We are well positioned to continue to take advantage of these trends. We also believe that our resorts offer a high-quality vacation at an affordable price, which appeals to families during all stages of the economic cycle. We believe our resorts are less affected by changes in the economic cycle than are other vacation destinations, as drive-to destinations are generally less expensive and more convenient than destinations that require air travel.

Positioned for economic recovery. During the past several years we have positioned our business to benefit in an economic recovery. Each of our resorts has completed construction, and we have no current development exposure. We have also strengthened our capital structure, refinancing our near-term maturing debt so that we have no debt maturities until July 2014. Additionally, we have taken steps to sell non-core assets. In August 2009, we closed on the sale of our 30.26% interest in the Great Wolf Lodge properties in Wisconsin Dells, WI and Sandusky, OH, and in March 2011 we sold our Blue Harbor Resort in Sheboygan, WI. All of these steps have allowed us to focus on our core operations, eliminate development risk from our portfolio and improve cash flows.

Extensive customer database through a centralized service center drives repeat and referral business. Since 1997, we have accumulated an extensive customer database, which allows us to market directly to our guests and

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drive repeat and referral business. Despite the recent economic downturn, our repeat and referral business has continued to grow, which we believe is a testament to the quality of our business methods. For the year ended December 31, 2011, 60% of our room nights were derived from repeat and referral guests.

In addition, by centralizing certain of our services, we focus on decreasing our per-unit costs. Centralized services provide operational efficiency, increasing our control over those services and positioning ourselves to deliver a higher quality of service to our guests. For example, our central reservations call center operates every day of the year and accepts reservations for our resorts. The call center also has the capacity to efficiently handle high call volumes and should require limited incremental costs over the next several years as we grow our portfolio. We have also increased the efficiency and functionality of our web-based online reservations system, which we expect to allow us to further efficiently handle an increasing volume of guest reservations with limited incremental costs.

Strategic transition to a license and management model. We anticipate that our future development projects will be structured as joint ventures or 100% license and management projects. This strategic shift is designed to allow more efficient use of capital as we expand our operation while continuing to leverage our brand, business model and operating expertise. In addition, we believe that numerous opportunities exist to partner with owners of existing hotels and resorts with indoor waterparks that are in need of management expertise.

Several development projects under letter of intent. We have entered into non-binding letters of intent with regard to a number of projects at various stages of development, including proposed joint venture projects to develop Great Wolf Resorts with one or two partners while only contributing a minority of the total equity for the project. If we choose to move forward with any such projects, we will seek to construct these resorts through joint ventures and manage them after opening in return for development, management, marketing and licensing fees to be paid to us. We plan to pursue these proposed projects as financing availability permits. We have previously entered into resort ownership joint ventures with Paramount Parks, CNL Lifestyle Properties and The Confederated Tribes of the Chehalis Reservation, and we are actively exploring potential joint venture arrangements for future properties.

Significant portfolio of product offerings that increase ancillary on-site revenues. Our resorts feature a number of proprietary and branded products and entertainment options that increase ancillary on-site revenues and distinguish our resorts' self-contained vacation experience. These products include Buckhorn Exchange gift shop, Elements Spa and Salon, Northern Lights Arcade, Cub Club, Scooops Kid Spa and miniature golf. Ten of our resorts feature a MagiQuest attraction, an interactive, live-action, fantasy adventure game that guests can play throughout the resort. Additionally, five of our resorts feature an approximately 1,000 square foot interactive family tech center, gr8_space, which features multiple computer stations offering Internet access, docking stations for digital music players and multiple gaming stations. We believe that these ancillary products will continue to drive additional revenues and enhance the guest experience and brand loyalty. We believe that the RevPOR performance of our Generation II resorts is due to a significant extent to the superior amenities provided at those resorts.

International growth opportunities. We believe that our Great Wolf Lodge brand could be successfully leveraged in certain international markets. We are currently discussing opportunities with potential international partners to build Great Wolf Lodge resorts beyond North America. Similar to our arrangement with Ripley's in Niagara Falls, Ontario, we are seeking to enter into licensing and/or management agreements with experienced companies that have local market knowledge in order to increase revenues and expand the reach of our Great Wolf Lodge brand.

Continual innovation. 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. We are currently exploring several new concepts that, we believe, will allow us to generate additional revenue without requiring significant capital investment.

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Among these concepts is an adaptive re-use model, pursuant to which we would license the right to use entertainment features currently used in Great Wolf resorts to existing, full-service hotels, featuring family-oriented activities. While these concepts are still in the initial stages of development, we are seeking to innovatively extend our brand and to take these concepts to market.

Strong management team with skilled resort level staff. Our executive management team includes four individuals who are responsible for our strategic direction and have an average of nine years of experience with Great Wolf Resorts and twenty years of industry experience. Our executive management 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 positive 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 guest experience and helping to assure that our guests fully enjoy their family vacations.

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.

Property Descriptions

We currently operate, manage and/or have entered into licensing arrangements relating to the operation of 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 Concord, North Carolina.

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 transferred this resort to a joint venture with CNL and sold 70% of our ownership interest in the property to CNL. In August 2009, we sold the remainder of our ownership interest in the joint venture to CNL. We continue to manage and license this resort under long-term arrangements.

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 2011-2012 Travel & Tourism Market Research Handbook, the Wisconsin Dells area attracts over 2.9 million 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 third-party 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 water fort. 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, kid spa, game arcade, gift shops, MagiQuest, 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.

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Great Wolf Lodge Sandusky, Ohio

In March 2001, we opened our Great Wolf Lodge in Sandusky, Ohio. In October 2005, we transferred this resort to a joint venture with CNL and sold 70% of our ownership interest in the property to CNL. In August 2009, we sold the remainder of our ownership interest in that joint venture to CNL. We continue to manage and license this resort under long-term arrangements.

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 10 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 water fort, 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, confectionary 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 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 water fort. It also includes a 10,000 square-foot conference center. 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, kid spa, game arcade, gift shops, MagiQuest, miniature golf, 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.

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 2011-2012 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 water fort. 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, kid spa, game arcade, gift shops, MagiQuest, miniature golf, 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.

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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 2011-2012 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 have leased a portion of the excess land to an entity who has opened a restaurant on this site. We may sell or lease a portion of the remaining excess land as out-lots and retain the remaining acreage to support future expansion of the resort.

Great Wolf Lodge of Williamsburg has 405 guest suites and an approximately 67,000 square-foot indoor waterpark that includes our signature treehouse water fort. It also includes a 10,000 square-foot conference center. 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, kid spa, game arcade, gift shops, MagiQuest, miniature golf, 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, Pennsylvania

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 2011-2012 Travel & Tourism Market Research Handbook, the Pocono Mountains region attracts approximately 6 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 water fort. 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, kid 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 from the opening of the resort, 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, the latter of which 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.

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In April 2006, the Great Wolf Lodge in Niagara Falls, Ontario, Canada opened. Niagara Falls is a popular family vacation destination. According to the 2011-2012 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, MagiQuest, miniature golf, an 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 2011-2012 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, kid 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 5th 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 one or more 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, kid 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 an expansion of this resort which includes 27,000 square feet of additional meeting space.

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Great Wolf Lodge Grand Mound, Washington

In March 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. Both parties maintain equity positions in the joint venture. The Confederated Tribes of the Chehalis Reservation has leased the land needed for the resort to the joint venture on favorable terms. 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.

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, Cub Club, a full-service spa, game arcade, gift shops, MagiQuest, miniature golf, 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.

Great Wolf Lodge Concord, North Carolina

In March 2009, we opened our Great Wolf Lodge in Concord, North Carolina on a 37-acre site. 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.

Great Wolf Lodge of Concord, North Carolina has 402 guest suites and approximately 97,000 square feet of indoor entertainment, including an 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, game arcade, gift shops, MagiQuest, miniature golf, gr8_space an outdoor recreation area and an approximately 20,000 square-foot conference center. The resort also includes non revenue-generating amenities such as a two-story animated Clock Tower and fitness center.

Our History

We were formed in May 2004 to succeed the family entertainment resort business of our predecessor companies, The Great Lakes Companies, Inc. and a number of its related entities, which we refer to collectively as Great Lakes. Our initial public offering occurred shortly after our formation, and we are listed on the NASDAQ Global market under the ticker symbol WOLF. Great Lakes had developed and operated hotels since 1995. In 1999, Great Lakes began its resort operations by purchasing the Great Wolf Lodge in Wisconsin Dells, WI and developing the Great Wolf Lodge in Sandusky, OH, which opened in 2001.

We refer to our original resort properties, which include our resorts in Wisconsin Dells, WI; Sandusky, OH; Traverse City, MI; and Kansas City, KS as Generation I resorts. The Generation I resorts are relatively smaller properties with approximately 300 rooms or less. Since 2004, we have successfully opened seven Great Wolf Lodge properties which we refer to as Generation II resorts, which include our properties in Williamsburg, VA; Pocono Mountains, PA; Mason, OH; Grapevine, TX; and Concord, NC; the resort we license in Niagara Falls, ONT and the resort we operate in Grand Mound, WA. Generation II resorts have approximately 400 rooms or more.

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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, WI, 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, Chula Vista, Mount Olympus and the Great Wolf Lodge (formerly known as the Black Wolf Lodge), which our predecessor company purchased in 1999.

We believe that resorts have proven popular because of 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 or developer other than Great Wolf Resorts has established a national portfolio of destination family entertainment resorts featuring indoor waterparks.

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 Hotel & Leisure Advisors, LLC (H&LA) survey as of July 2011 indicates that there are 141 open indoor waterpark resort properties in the United States and Canada. Of the total, 47 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 47 properties, 11 are our properties.

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 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 and marketplace.

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 company culture and guest service policies and provides hands-on operating experience at a resort. 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 guest 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.

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Training and Development

We believe that our ability to provide a friendly family-oriented atmosphere where families can relax, play and reconnect begins with our employees and their ability to deliver quality guest service. We seek to recruit, train and retain employees who will make sure that our guests enjoy their stays at our resorts. 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 guest 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 guest service is a competitive advantage and promotes valuable referrals and repeat visits.

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 guests through a combination of television, radio, newspaper, electronic mail, internet 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.

Maintenance and Inspections

Each of our resorts has an experienced aquatics director who is extensively trained and experienced in water quality and safety. Furthermore, we use Ellis & Associates as water safety consultants at our resorts in order to train lifeguards and audit safety procedures. 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.

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 environmental 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.

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Development Criteria

If and to the extent we are involved in the development process for new resorts, we choose or suggest sites for the development of new resorts by considering a number of factors, including:

Large target customer base. We select or suggest 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 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 may negatively affect 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 or suggest developing 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 or suggest 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. However, if we choose to pursue a development in the future, we will likely work with a joint venture partner or licensee in order to limit our required equity contribution and enhance our fee revenues, including development, management and licensing fees.

Once we have identified a market that meets our development criteria, we search for potential sites to recommend to a potential licensee or joint venture partner. 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 or assist with 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 or the joint venture that owns the resort secures 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 hotels and 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 Hotel & Leisure Advisors, LLC (H&LA) survey as of July 2011 indicates that there are 141 open indoor waterpark resort properties in the United States and Canada. Of the total, 47 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 47 properties, 11 are our properties.

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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 expand our already 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 waterpark resorts were first introduced, there are approximately 15 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 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, Williamsburg, 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, if and when developed, likely 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.

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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 if and to the extent any of our resorts discharge 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.

As a place of public accommodation, our resorts are subject to the requirements of the Americans with Disabilities Act of 1990, as amended by the 2010 ADA Standards for Accessible Design (ADA) and other applicable federal rules and regulations, as well as state and local laws. Thus, our resorts are required to meet certain federal, state and local requirements related to access and use by disabled persons. While we believe that our resorts are in compliance with the requirements currently in effect, we are presently evaluating the requirements of the 2010 ADA Standards for Accessible Design that are effective on March 15, 2012 to determine whether, and to what degree, we will have to modify our resorts to be in full compliance with the amended ADA requirements when effective. In the event further amendments to federal, state or local laws are made imposing more stringent requirements, we would have to comply with those amendments as well.

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

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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 or assist 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 followed that process in connection with the development of our Blue Harbor Resort in Sheboygan, Wisconsin (which we sold in March 2011), where the City of Sheboygan arranged for environmental clean-up work and ongoing groundwater monitoring and we agreed to the use of a barrier preventing contact with residual contamination and implementation of a deed restriction limiting site activities. To our knowledge, all work at our Sheboygan resort was 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 did not identify 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 may 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.

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Intellectual Property

Great Lakes Services, LLC (GLS), our subsidiary, has a licensing agreement with the original developer of the Wisconsin Dells resort under which GLS has an irrevocable, exclusive, perpetual, world-wide license to use all the intellectual property embodied in the Wisconsin Dells resort as of the date of execution of the agreement. GLS pays or causes to be paid a royalty to the licensor based upon certain revenues generated at most of the resorts that it owns or licenses.

We have registered, applied for the registration of or claim ownership of a variety of service marks, copyrights and trademarks for use in our business, including Great Wolf Lodge, Great Wolf Resorts, Blue Harbor Resort, gr8_space, KidCabin, Scoops Kid Spa and MagiQuest 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, 2011, we had approximately 300 corporate employees, including our central reservations center and CK employees, and approximately 4,300 resort-level employees, approximately 2,100 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.

Offices

We lease the following space:

Approximately 18,000 square feet of office space for our corporate headquarters office in Madison, Wisconsin;

Approximately 9,800 square feet of office space for our central reservations call center operations in Madison, Wisconsin;

Approximately 1,400 square feet of office space in Woodbridge, Virginia;

Approximately 2,700 square feet of office space in Lorain, Ohio;

Approximately 20,000 square feet of office and warehouse space in Tillamook, Oregon; and

Approximately 19,000 square feet of retail space in Myrtle Beach, South Carolina.

We believe these facilities are adequate for our current needs.

Domestic and Foreign Operations

We have derived a portion of our revenues from licensing fees, management fees, marketing fees and central reservations fees paid by the Great Wolf Lodge resort located in Niagara Falls, Ontario, Canada. During 2011, 2010 and 2009, total revenue from U.S. operations was \$295,308, \$274,676 and \$254,750, respectively, and total revenue from Canadian operations was \$1,400, \$1,284 and \$1,489, 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

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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

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site, which is located at 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 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 through the SEC's Web site at 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.

Legal Proceedings

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

ITEM 1A. RISK FACTORS

Risks Related to Our Business Activities

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.

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 acceptable terms and the market price of our common stock.

The United States economy has undergone a major recession, and the future economic environment may continue to be less favorable than that of recent years. This recession has and could further lead to reduced consumer and commercial spending in the foreseeable future. The hospitality industry has experienced significant downturns in connection with declines in general economic conditions. For example, we believe that lower than expected occupancy and average daily room rates in recent periods at our Traverse City and Sandusky resorts are due, in part, to the adverse economic conditions in the regions in which these resorts are located. Declines in consumer and commercial spending have driven us and our competitors to reduce pricing, which has had a negative impact on our results of operations. A continued softening in the economy may adversely and materially affect our industry, business and results of operations and we cannot accurately predict how severe and prolonged any downturn might be. Moreover, 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.

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 four years, the slowing U.S. economy has led to a decrease in credit for consumers and a related decrease in consumer discretionary spending. This trend continued through 2011 as consumers continued to deal with several negative economic conditions that have developed over the past four years including:

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

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relatively high unemployment rates and limited job creation;

a continuing decline in the national average of home prices and an increase in national foreclosure rates; and

high volatility in the stock market that led to substantial declines in stock values and aggregate household savings from 2007 to 2011. These and other factors impact the amount of discretionary income for consumers and consumer sentiment toward discretionary purchases. As a result, these types of items could negatively impact consumer spending in future periods. A sustained decrease in overall consumer discretionary spending could have a material, adverse effect on our business, financial condition and results of operations.

The United States equity 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. In particular, the market for securitized debt (which we have used in the past for certain financing transactions) has been dramatically reduced over the past four years. Continued uncertainty in the equity and credit markets may negatively impact our ability to access additional short-term and long-term financing, including future debt securitization transactions and construction financing, on reasonable terms or at all, which would negatively impact our liquidity and financial condition. A continued downturn in the equity 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. 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. 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, by ourselves or with others, 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, or license others to develop, additional resorts or possibly 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;

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unavailability to us and other investors and/or developers of financing on favorable or any terms;

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

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negative changes in the local markets, the local competitive environment or in local economic conditions that occur between the commencement of development and the completion of the resort;

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 limited number of suppliers and manufacturers of the equipment we use in our indoor waterparks. We may not be able to successfully manage any future development to minimize these risks, and present or future developments may not perform in accordance with our previous developments or our expectations. The failure to successfully develop our new resorts could have a material, adverse effect on our growth strategies and our business, financial condition and results of operations.

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 in the past seven years, including in particular our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Williamsburg, Pocono Mountains and Mason markets. We anticipate that competition within some of our markets will increase further in the foreseeable future. A number of other resort operators have announced plans to develop family entertainment resorts with indoor waterparks that would 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, new or existing competitors may 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.

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

We incurred net losses for the previous eight fiscal years. We cannot guarantee that we will become profitable. Even if we do become profitable, given the increasing competition in our industry, current economic conditions and capital-intensive nature of our business, we may not be able to sustain or increase any profitability we may achieve in the future on a quarterly or annual basis, and our failure to do so could adversely affect our business and financial condition.

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 one resort to our current portfolio of 11 resorts at December 31, 2011. 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 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.

We currently have one resort located outside of the United States, and international expansion may cause the proportion of our international business to expand. Many factors affecting business activities outside the United States could adversely impact this business.

We currently have a licensing arrangement with a resort in Canada, and our international expansion plan is to license and/or manage additional resorts that are located in foreign countries and are wholly-owned or principally owned by third parties.

Factors that could affect our international business will vary by region and market and generally include:

instability or changes in social, political and/or economic conditions that could disrupt the trade activity in the countries where our resorts are located;

the imposition of additional duties, taxes and other charges on imports and exports;

changes in foreign laws and regulations;

any inability to enforce contracts or intellectual property protections under the laws of the relevant jurisdiction;

the availability of qualified labor and other resources in the relevant region;

potential and actual international terrorism and hostilities;

the adoption or expansion of trade sanctions or other similar restrictions;

tax laws and other regulations that may impede our ability to receive revenues from international resorts;

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recessions in foreign economies or changes in local economic conditions; and

changes in currency valuations in specific countries or markets.

The occurrence or consequences of any of these risks could affect our ability to operate in the affected regions, which could have a material, adverse effect on our growth strategies and our financial results.

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Accidents or injuries at 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 ability to attract customers, 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. 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 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 types and in the amounts that we believe are commercially reasonable and that are available to businesses in our industry, but we cannot be certain that our liability insurance will be adequate or available at all times and in all circumstances to cover any liability for these costs. The liability insurance carried by Great Lakes prior to our initial public offering (IPO) may not be 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.

Our business is seasonal and 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. We may not be able to secure short-term borrowing on favorable terms, or at all. Failure to compensate adequately for seasonality could have a material, adverse effect on our financial condition and business operations and could severely limit our expansion plans.

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 or manage in the future are similarly likely to be dependent primarily on the markets in the immediate vicinity of such resorts. Regional economic difficulties, such as 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 markets. In addition, because we are dependent to a large extent on customers who drive to our locations, a significant increase in the price of gasoline in our local markets or nationally may also increase the real or perceived cost of a vacation at our resorts and therefore have a negative effect on our ability to attract customers to our resorts. We may not 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.

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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 primary 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.

Adverse 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 discretionary consumer spending such as employment, business conditions, interest rates and taxation. Recently, 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 the local economies in our markets, the U.S. national economy or, as we expand internationally, 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, continuing high rates of unemployment, further declines in housing prices or increases in foreclosure rates (particularly in our local markets), increased local or federal taxes, decreases in real or perceived wealth or significant declines in the stock market could lead to a further reduction in discretionary spending on leisure activities, thereby materially and adversely affecting our growth strategies and our business, financial condition and results of operations.

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 room rates and other revenue. Increases in operating costs may also negatively affect the profitability of our licensed and managed resorts, which may therefore have a material, adverse effect on our license fee and management fee revenues as well as the value of our minority investments in such resorts. 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 largest resort-level operating expense. As of December 31, 2011, we employed approximately 4,300 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 applicable 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. 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 guests through higher room rates and amenity costs, our operating margins could suffer.

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Most of our resorts are 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 guests 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 cash flow from, a resort (including cash flows from our license or management agreements). 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 or the principal owners of our licensed and managed resorts will be required to make certain capital expenditures to maintain the quality of our resorts, and the failure to make such expenditures could materially and adversely affect our brand equity as well as our business, 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. The owners of our licensed and managed resorts will face similar risks and capital expenditure requirements, and third-party owners or licensees may be unable to access capital or unwilling to spend available capital when necessary, even if required by the terms of our management or license agreements. If we or the owners of our licensed and managed resorts do not meet those capital expenditure needs, we may not be able to maintain the quality of our resorts. If we are unable to maintain the quality of our resorts, our brand equity and guest satisfaction will be negatively affected, thereby reducing our ability to grow our business, attract new customers and drive repeat and referral business, which could have a material and adverse effect on our business, financial condition and results of operations.

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 registration and enforcement of 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

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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 may not be able to adequately protect our trademarks, and our use of these trademarks may 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, and the risks related to foreign laws will increase as we expand internationally.

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 may require us to use a significant amount of cash to reduce our debt.

If we fail to maintain effective internal control 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.

Our internal control over financial reporting is 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 control over financial reporting is necessary for us to provide reliable reports and prevent fraud.

We believe that any 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 of 2002 could have a material adverse effect on our business.

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

With approximately 4,600 employees, as of December 31, 2011, 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 factors beyond our control, including increases in health care costs. At least some of these factors continue to put upward pressure on the cost of providing medical benefits. Although we have actively sought to control increases in these costs, we cannot be certain that we will succeed in limiting cost increases, and continued upward pressure could reduce the profitability of our businesses.

A failure to maintain good relationships with third-party property owners and licensees could have a material, adverse effect on our growth strategies and our business, financial condition and results of operations.

We manage and/or license four of our resort properties in which we have limited or no ownership interest, and under our license-based growth strategy, we plan to increase the number of such properties as we seek to expand our operations both domestically and internationally. The viability of our management and licensing business depends, in part, on our ability to establish and maintain good relationships with third-party property owners and licensees. Third-party developers, property owners and licensees are focused on maximizing the value of their investment and working with a management company or licensor that can help them be successful. The effectiveness of our management, the value of our brand and the rapport that we maintain with our third-party property owners and licensees impact our revenue streams from our management and license agreements. If we are unable to maintain good relationships with our third-party property owners and licensees, we may be unable to renew existing agreements or expand our relationships with these owners. Additionally, our opportunities for developing new relationships with additional third parties may be adversely impacted.

The nature of our responsibilities under our management agreements to manage each resort and enforce the standards required for our brands under both management and license agreements may be subject to interpretation and may give rise to disagreements in some instances. Additionally, some courts have applied principles of agency law and related fiduciary standards to managers of third-party hotel properties such as us, which means, among other things, that property owners may assert the right to terminate management agreements even where the agreements do not expressly provide for termination. In the event of any such termination, we may need to negotiate or enforce our right to a termination payment that may not equal expected profitability over the term of the agreement. These types of disagreements are more likely during an economic downturn. 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. Our current arrangements may not continue, and we may not 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. Finally, we are dependent on the cooperation of the owners or principal owners of our licensed and managed resorts in the development of new resorts and in the renovation of existing resorts. The failure to retain or renew management and licensing agreements or the failure of owners to develop resorts as agreed or on schedule or to make necessary capital expenditures may cause disruptions to our business plan and growth strategies and have a material, adverse effect on our business, financial condition and results of operations.

We are dependent on the owners of the resorts we manage and license for third-party owners to fund certain operational expenditures related to those resorts, and if such funds are untimely or not paid, we are required to bear the cost.

We incur significant expenditures related to the management of our managed resorts, including salary and other benefit related costs and business and employee related insurance costs for which we are reimbursed by third-party resort owners. In the normal course of business, we make every effort to pay these costs only after

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receiving payment from an owner for such costs. However, to the extent an owner would not be able to reimburse these costs, due to a sudden and unexpected insolvency situation or otherwise, we would be legally obligated to pay these costs directly until such time as we could make other arrangements. Although we would make every effort to reduce or minimize these costs prior to the point at which an owner could not reimburse us and we would continue to pursue payment through all available legal means, our results of operations and financial condition could be adversely affected if we were forced to bear those costs.

Investing through partnerships or joint ventures may decrease our ability to manage risk. Additionally, our license fee and management fee revenue streams, as well as any joint venture equity investments, are subject to property-level indebtedness and other risks.

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.

Furthermore, our current managed resorts that are subject to mortgage or construction indebtedness must be serviced by the entities owning those resorts. Future licensed or managed resorts will also likely be subject to such indebtedness. The principal owner of a licensed or managed resort may cause the entity owning the resort to incur indebtedness that may exceed the amount of debt the resort can service. In the event of a failure to service property-level indebtedness that results in a sale or foreclosure, our license and management agreements may be terminated, and any joint venture equity investment we have made in the owner will likely be lost. The loss of these agreements or investments could have a material and adverse effect on our business, financial condition and results of operations.

Under certain circumstances, our license and management agreements may be terminated by the property owners due to the sale of the property or other reasons. The termination of our current or future license or management agreements would reduce our revenues and have a material adverse effect on our business, financial condition and results of operations.

Because the land used by one of the resorts we operate is subject to a ground lease, termination of this lease by the lessor could cause us to lose the ability to operate this resort altogether and incur substantial costs in restoring the premises.

The rights to use the land at the Grand Mound, WA resort, which is owned by a joint venture in which we have a 49% ownership interest, are based upon the joint venture's interest under a long-term ground lease. Pursuant to the terms of the ground lease for this resort, the joint venture is required to pay all rent due and comply with all other lessee obligations. As of December 31, 2011, the terms of this ground lease (including renewal options) is 46 years. Any pledge of the joint venture's interest in this ground lease may also require the consent of the lessor and its lenders. As a result, the joint venture may not be able to sell, assign, transfer or convey its lessee's interest in the resort subject to the ground lease in the future absent consent of such third parties even if such transactions may be in the best interest of the joint venture's owners.

The lessor may require the lessee, at the expiration or termination of the ground lease, to surrender or remove any improvements, alterations or additions to the land at its own expense. The ground lease also generally requires the lessee to restore the premises following a casualty and to apply in a specified manner any

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proceeds received in connection therewith. The lessee 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 our Great Wolf Lodge brand could adversely affect our business and revenues.

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

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

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

Some of our resort rooms are booked through Internet travel intermediaries, such as Expedia.com[®], Travelocity.com[®], and Priceline.com[®], serving both the leisure and, increasingly, the corporate travel and group meeting sectors. These intermediaries attempt to commoditize hotel rooms by aggressively marketing to price-sensitive 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 apparently anticipate that consumers will eventually develop brand loyalties to their travel services rather than to our lodging brands. Although we plan to continue to maintain and even increase the strength of our brands in the online 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 depend on a seasonal workforce.

Our resort operations are dependent in part 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 visas necessary to hire foreign workers who are a source for some of the seasonal workforce will be available. Increased seasonal wages or an inadequate workforce could have an adverse impact on our results of operations.

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

An outbreak of influenza or other communicable disease can impact places of public accommodation, such as our resorts. In many areas, localized public-health measures were implemented as a result of outbreaks of influenza A(H1N1), including travel bans, the closings of schools and businesses, and cancellations of events. These measures, whether implemented in connection with this or another outbreak of infectious disease, especially if they become more geographically widespread or sustained over significant time periods, or if public perception of the safety or desirability of visiting our resorts is adversely impacted by these measures or by media coverage of the outbreak, could materially reduce demand for our rooms and meeting spaces and, correspondingly, reduce our revenue, negatively affecting our business and results of operations.

Our future financial results could be adversely impacted by asset impairments or other charges.

We are required to test our intangible assets at least yearly for impairment or when circumstances indicate that the carrying value of those assets may be impaired. We are also required to test our long-lived assets (such as resorts) when circumstances indicate that the carrying value of those assets may not be recoverable.

During the quarter ended December 31, 2010, we recorded \$18,741 of impairment charges related to our Traverse City and Kansas City resorts. We determined the carrying values of these resorts were impaired in light of the reduced estimated hold periods for the resorts. Because of the reduced estimated hold periods, we performed recoverability tests of these resorts to determine if further assessment for potential impairment was required. Based on this analysis of undiscounted cash flows, we determined the carrying value of these resorts were not recoverable. As a result, we recorded an \$18,741 impairment charge to decrease the resorts' carrying value to their estimated fair value (net of estimated disposal costs) as of December 31, 2010.

Because of triggering events that occurred in the three months ended September 30, 2009 related to our Sheboygan resort, including changes in the expectation of how long we will hold this property, current period and historical operating losses and the deterioration in the current market conditions, we performed a recoverability test of this resort to determine if further assessment for potential impairment was required. Based on this analysis of undiscounted cash flows, we determined the carrying value of this resort was not recoverable. As a result, we recorded a \$24,000 impairment charge to decrease the resort's carrying value to its estimated fair value (net of estimated disposal costs) as of September 30, 2009, and in March 2011 we disposed of this asset.

The amount of any future annual or interim asset impairment charges could be significant and could have a material adverse effect on our reported financial results for the period in which the charge is taken. See Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates Investments in Property and Equipment. Any operating losses resulting from impairment charges could have an adverse effect on the market price of our securities.

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 thereunder, 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 in compliance with the requirements currently in effect, 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

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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 approximately \$800 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 2010 and 2009 we incurred other costs of \$458 and \$26, respectively, to remediate wastewater discharges that were out of compliance with applicable permits and to prevent further out-of-compliance discharges. We had no costs as it relates to remediating the wastewater discharges in 2011. Our Poconos Mountains resort has been notified of a \$27 fine for a deficiency in our wastewater management reporting, which is expected to be paid in 2012.

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. 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

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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 followed that process in connection with the development of our Blue Harbor Resort in Sheboygan, Wisconsin (which we sold in March 2011), where the City of Sheboygan arranged for environmental clean-up work and ongoing groundwater monitoring and we agreed to the use of a barrier preventing contact with residual contamination and implementation of a deed restriction limiting site activities. 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 could adversely affect our business.

We cannot be certain 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, 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. We cannot be certain 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 (or have been) offers or sales of securities, such a determination may create liabilities or contingencies that could have an adverse effect on our operations and financial results, 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.

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 guests as they are entered into, processed by, summarized by, and reported by our various information systems. We also maintain personally

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identifiable information about our employees. The integrity and protection of that guest, employee, and company data is critical to us. If that data is not accurate or complete we could make faulty decisions. Our guests 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 guest, 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 or state 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 our resort-owning entities. 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, as accepting limited partnership units may allow a seller to defer the recognition of gain on a sale of real estate. 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 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 December 31, 2011, 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 continue to fluctuate significantly:

variations in our quarterly operating results;

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

fluctuations in stock market prices and volumes;

additions or dispositions to our portfolio of owned, managed and/or license properties;

issuances of common stock or other securities in the future;

the addition or departure of key personnel;

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

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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.

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, 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;

prohibit the ability 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 and the owners and developers of our licensed and managed resorts may not be able to obtain additional financing, including extensions or refinancing of existing indebtedness, on favorable terms, if at all.

We expect that we will require additional financing or have to extend or refinance our existing indebtedness over time, the amount of which will depend on a number of factors, including the number of resorts we construct or improve, the maturity dates of our existing financings, the amounts of our investments in joint ventures, additions to our current resorts and the cash flow generated by our resorts and management and licensing agreements. 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;

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capital providers perception of our growth potential and growth potential in the real estate sector in general;

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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.

The owners and developers of our licensed and managed resorts face similar risks, since they will require financing to construct and improve those resorts and to extend or refinance existing indebtedness. Failure to obtain sufficient financing could have a material adverse effect on our growth strategies and on our business, financial condition and results of operations.

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.

The covenants under the indenture governing our first mortgage notes and our mortgage loan agreements include restrictive covenants that may limit our operating and financial flexibility.

The indenture governing our first mortgage notes contains, and future financing agreements may contain, covenants that, among other things, restrict our ability to take specific actions, even if we believe them to be in our best interest. These include restrictions on our ability and the ability of our restricted subsidiaries to:

incur additional indebtedness;

make any restricted payments, such as dividends or distributions on, or redeem or repurchase, capital stock;

prepay, redeem or repurchase specified indebtedness;

merge, consolidate or sell assets or enter into other business combination transactions;

make acquisitions, capital expenditure investments or other investments;

enter into transactions with affiliates;

incur certain liens;

use proceeds from sale of assets;

permit limitations on the ability of our subsidiaries to make payments to us and our restricted subsidiaries;

impair the collateral; and

change our business.

In addition, 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 impact on our business, financial condition and results of operations by significantly limiting or prohibiting us and/or our subsidiaries from engaging in certain actions, including:

the distribution of cash or the payment of dividends by our subsidiaries to us;

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.

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In addition, the agreements governing the mortgage loan secured by our Concord resort require Great Wolf Resorts to maintain a minimum consolidated tangible net worth.

Various risks, uncertainties and events beyond our control could affect our ability to comply with these covenants and financial tests. Failure to comply with any of the covenants in our existing or future financing agreements could result in a default under those agreements and under other agreements which may contain cross-default provisions. A default would permit lenders to accelerate the maturity of the debt under these agreements and to foreclose upon any collateral securing such debt. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including our obligations under the notes. In addition, the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions might significantly impair our ability to obtain other financing. We may not be granted waivers or amendments to these agreements if for any reason we are unable to comply with these agreements and we cannot guarantee that we will be able to refinance our debt on terms acceptable to us or at all.

Our Traverse City and Kansas City mortgage loan requires us to maintain a minimum debt service coverage ratio (DSCR) of 1.35, calculated on a quarterly basis. This ratio is defined as the two collateral properties' combined trailing twelve-month net operating income divided by the greater of (i) the loan's twelve-month debt service requirements and (ii) 8.5% of the amount of the outstanding principal indebtedness under the loan. Failure to meet the minimum DSCR is not an event of default and does not accelerate the due date of the loan. Not meeting the minimum DSCR, however, subjects the two properties to a lock-box cash management arrangement, at the discretion of the loan's servicer. The loan also contains a similar lock-box requirement if we open any Great Wolf Lodge or Blue Harbor Resort within 100 miles of either resort, and the two collateral properties' combined trailing twelve-month net operating income is not at least equal to 1.8 times 8.5% of the amount of the outstanding principal indebtedness under the loan.

For the year ended December 31, 2011, the DSCR for this loan was 1.16. In September 2010 the loan's master servicer implemented the lock-box cash management arrangement. That lock-box cash management arrangement currently requires substantially all cash receipts for the two resorts to be moved each day to a lender-controlled bank account, which the loan servicer then uses monthly to fund debt service and operating expenses for the two resorts on a monthly basis, with excess cash flow being deposited in a reserve account and held as additional collateral for the loan. We believe that this arrangement constitutes a traditional lock-box arrangement as discussed in authoritative accounting guidance. Based on that guidance, we have classified the entire outstanding principal balance of the loan as a current liability at December 31, 2011, since the lock-box arrangement requires us to use the properties' working capital to service the loan, and we do not presently have the ability to refinance this loan to a new, long-term loan. Although the entire principal balance of the loan is classified as a current liability as of December 31, 2011, the loan is not in default, and the principal balance is not due currently.

At our request, in October 2010 the loan was transferred to its special servicer. We informed the special servicer that, given the current and expected performance at that time of the two properties securing this loan, we might elect to cease the subsidization of debt service on this non-recourse loan. If we were to elect to cease the subsidization of debt service, that may result in a default under the loan agreement. We believe the combined market value of the two properties securing this loan is now significantly less than the principal amount of the loan. The properties had a combined net book value of \$37,758 as of December 31, 2011, which includes the effect of an impairment charge we recorded in 2010 to adjust the carrying value of the properties to their estimated fair value, and the amount of debt outstanding under the loan was \$65,591 as of December 31, 2011.

Through March 2011, we worked with the special servicer to discuss a potential modification of this loan. Those discussions proved unsuccessful and the special servicer has transferred the loan back to the master servicer, where the lock-box arrangement as described above remains in place.

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Given improved operating trends and performance at the properties during 2011, we currently expect the properties to generate sufficient cash flow so that our subsidization of debt service, if any, for 2012 will be insignificant to our overall operations. As a result, we currently believe the most likely course of action for 2012 is to continue to operate these properties, assuming these trends continue.

Issues affecting financial institutions could adversely affect financial markets generally as well as our ability to raise capital or access liquidity.

Factors that we cannot control, such as disruption of the financial markets or negative views about the financial services industry generally, could impair our ability to raise necessary funding. The creditworthiness of many financial institutions may be closely interrelated as a result of credit, derivative, trading, clearing or other relationships among the institutions. As a result, concerns about, or a default or threatened default by, one institution could lead to significant market-wide liquidity and credit problems, losses or defaults by other institutions. This may adversely affect the financial institutions, such as banks and insurance providers, with which we interact on a daily basis, and therefore could adversely affect our ability to raise needed funds or access liquidity.

Because we have guaranteed certain mortgage-related obligations of our subsidiaries, if one or more of our subsidiaries fail to meet its obligations under the mortgage, we may be required to satisfy such obligations and such an undertaking could have an adverse effect on our financial condition.

Great Wolf Resorts, Inc. has provided a \$25,000 payment guarantee of the mortgage loan and related interest secured by our Concord resort. This loan requires quarterly principal payments of \$125 in the first year of the loan term and \$375 thereafter. The underlying cash flows from the Concord resort may not be able to satisfy the debt service obligations under the mortgage loan. In addition, the loan agreement contains various customary financial and operating debt compliance covenants, and the entity owning the Concord resort and Great Wolf Resorts, Inc. may not be able to comply with those covenants. If the borrower defaults under the loan agreement, Great Wolf Resorts, Inc. would be required to assume certain obligations under the loan, including the payment of up to \$25,000 of outstanding debt amounts. While the property itself is subject to a mortgage to secure the mortgage loan, even in the event the property could be sold in a foreclosure to satisfy all or a portion of the outstanding debt, to the extent the proceeds of such sale are insufficient to satisfy the outstanding debt, we would be liable for the remaining outstanding amount.

Any default as described above could therefore have a material, adverse effect on our financial condition and could materially reduce the amount of cash we have available to fund capital expenditures and growth initiatives, which could have a material, adverse effect on our business and results of operations.

We may be unable to generate sufficient cash, and may not have access to the cash flow and other assets of our subsidiaries to service all of our indebtedness, including our first mortgage notes, and we may be forced to take other actions to satisfy its obligations under such indebtedness, which actions may not be successful.

Our ability to make scheduled payments on or to refinance our debt obligations depends on the financial condition and operating performance of us and our subsidiaries, which are subject to prevailing economic and competitive conditions and to financial, business and other factors beyond our control. We and our subsidiaries may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay or refinance our indebtedness, including our first mortgage notes and our indebtedness under mortgage loan agreements. If the cash flows and capital resources of us and our subsidiaries are insufficient to fund our debt service obligations, we and our subsidiaries could face substantial liquidity problems and may be forced to reduce or delay capital expenditures or growth strategies, sell assets, seek additional capital or restructure or refinance our indebtedness, including our first mortgage notes and our mortgage debt. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations.

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We are a holding company, and its operations are conducted through its subsidiaries, but none of the subsidiaries is obligated to make funds available to us for payment of our first mortgage notes. Accordingly, our ability to make payments on our first notes is dependent on the earnings and distributions of funds from its subsidiaries. Furthermore, the agreements governing our mortgage debt that is outstanding contain restrictions on the applicable borrower subsidiary to pay dividends or otherwise transfer assets to us unless certain financial tests are met. In particular:

the mortgage loans secured by our Kansas City, Traverse City, Poconos and Concord resorts require us to meet certain debt service covenants in order to make distributions, which in the case of the Kansas City/Traverse City loan we do not currently meet.

because of that non-compliance, on September 13, 2010 the lenders of our Kansas City/Traverse City loan have elected to exercise their right to implement a lock-box cash management arrangement, which requires substantially all cash receipts for the two resorts to be moved each day to a reserve bank account and all excess cash to be deposited in a lender-controlled account. As a result our ability to distribute cash from the resorts to us will be significantly limited for the period during which the lock-box arrangement is in effect.

the Concord loan documents require a partial payment of that loan in certain instances, all of which may reduce the amount of funds available to pay the notes.

Forward-Looking Statements

Some of the statements contained in this Annual Report on Form 10-K, and other information we file with the Securities and Exchange Commission, or the SEC, are or may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. 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 performance and 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, might, will, could, plan, objective, predict, project, potential, continue, ongoing, seeks, anticipates, 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. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to, competition in our markets, changes in family vacation patterns and consumer spending habits, regional or national economic downturns, our ability to attract a significant number of guests from our target markets, economic conditions in our target markets, the impact of fuel costs and other operating costs, our ability to develop new resorts in desirable markets or further develop and improve existing resorts on a timely and cost efficient basis, our ability to manage growth, including the expansion of our infrastructure and systems necessary to support growth, our ability to manage cash and obtain additional cash required for growth, the general tightening in the U.S. lending markets, potential accidents or injuries at our resorts, decreases in travel due to pandemic or other widespread illness, our ability to achieve or sustain profitability, downturns in our industry segment and extreme weather conditions, reductions in the availability of credit to indoor waterpark resorts generally or to us or our subsidiaries, increases in operating costs and other expense items and costs, uninsured losses or losses in excess of our insurance coverage, our ability to protect our intellectual property, trade secrets and the value of our brands, and current and possible future legal restrictions and requirements. 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 and Management's Discussion and Analysis of Financial Condition and results of Operations.

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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. Past financial or operating performance is not necessarily a reliable indicator of future performance and you should not use our historical performance to anticipate results or future period trends.

You should read this Annual Report on Form 10-K and the documents that we reference in this report completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of our forward-looking statements by each of these cautionary statements.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

None.

ITEM 2. *PROPERTIES*

We own an equity interest in eight family entertainment resorts that are currently operating. 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 two reportable segments in 2011:

resort ownership/operation, and

resort third-party management/licensing.

Information on our properties in which we own an equity interest 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.

Great Wolf Lodge of Williamsburg is located on 84 acres in Williamsburg, Virginia, of which 48 acres have been developed (2 of which are leased to another entity) and 36 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.

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

Information on our property included in our Resort Third-Party Management/Licensing segment in which we own an equity interest is as follows:

Great Wolf Lodge of Grand Mound is located on 39 leased acres in Grand Mound, Washington, of which 22 acres are developed and 17 acres remain undeveloped. 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.

For additional information regarding our resort properties see Item 1. Business Property Descriptions above.

We lease the following space:

Approximately 18,000 square feet of office space for our corporate headquarters office in Madison, Wisconsin;

Approximately 9,800 square feet of office space for our central reservations call center operations in Madison, Wisconsin;

Approximately 1,400 square feet of office space in Woodbridge, Virginia;

Approximately 2,700 square feet of office space in Lorain, Ohio;

Approximately 20,000 square feet of office and warehouse space in Tillamook, Oregon; and

Approximately 19,000 square feet of retail space in Myrtle Beach, South Carolina.

We believe these facilities are adequate for our current needs.

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.

Table of Contents**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 quarters indicated the high and low per share closing sales prices as reported by The NASDAQ Global Market. As of February 16, 2012, we had approximately 200 shareholders of record.

| | Stock Price | |
|---|-------------|---------|
| | High | Low |
| Fiscal 2010: | | |
| First Quarter | \$ 3.75 | \$ 2.09 |
| Second Quarter | \$ 3.37 | \$ 2.01 |
| Third Quarter | \$ 2.34 | \$ 1.78 |
| Fourth Quarter | \$ 2.79 | \$ 1.90 |
| Fiscal 2011: | | |
| First Quarter | \$ 3.30 | \$ 2.08 |
| Second Quarter | \$ 3.04 | \$ 2.07 |
| Third Quarter | \$ 3.61 | \$ 2.28 |
| Fourth Quarter | \$ 2.90 | \$ 2.18 |
| Fiscal 2012: | | |
| First Quarter through February 21, 2012 | \$ 3.77 | \$ 2.94 |

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.

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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 January 1, 2007 through December 31, 2011, 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.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA**

The following summary consolidated financial data should be read in conjunction with, and are qualified by reference to, our consolidated financial statements and related notes and Management's Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this annual report on Form 10-K. The condensed consolidated statements of operations data for the years ended December 31, 2011, 2010, 2009, 2008 and 2007, are derived from our audited condensed consolidated financial statements.

Our consolidated financial information includes:

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

our wholly-owned resorts;

beginning in June 2010, our CK subsidiary which is a developer of experiential gaming products, less our noncontrolling interest; and

our equity interests in the Wisconsin Dells and Sandusky resorts through August 2009, when we sold our minority ownership interests in those resorts, and our equity interest in the Grand Mound resort in which we have a minority ownership interest but which we do not consolidate.

| | 2011 | 2010 | 2009 | 2008 | 2007 |
|--|--|----------------|----------------|----------------|----------------|
| | (Dollars in thousands, except per share amounts) | | | | |
| Statement of Operations and Comprehensive Loss: | | | | | |
| Revenues: | | | | | |
| Rooms | \$ 174,325 | \$ 158,985 | \$ 150,565 | \$ 138,173 | \$ 106,744 |
| Food, beverage and other | 92,417 | 87,663 | 77,413 | 69,698 | 51,699 |
| Management and other fees | 2,812 | 2,646 | 1,990 | 2,798 | 2,855 |
| Management and other fees affiliates | 4,981 | 4,594 | 4,973 | 5,346 | 4,314 |
| Other revenue from managed properties(1) | 11,315 | 11,083 | 4,166 | | |
| Other revenue from managed properties affiliates(1) | 10,858 | 10,989 | 17,132 | 19,826 | 11,477 |
| Total revenues | 296,708 | 275,960 | 256,239 | 235,841 | 177,089 |
| Operating expenses by department: | | | | | |
| Rooms | 25,069 | 23,106 | 21,405 | 18,953 | 14,416 |
| Food, beverage and other | 72,955 | 67,106 | 62,457 | 56,576 | 44,338 |
| Other operating expenses: | | | | | |
| Selling, general and administrative | 64,332 | 65,075 | 58,731 | 49,100 | 44,343 |
| Property operating costs | 35,373 | 33,004 | 36,212 | 35,199 | 28,816 |
| Depreciation and amortization | 53,723 | 58,318 | 53,369 | 42,286 | 32,554 |
| Impairment loss on investment in affiliates | | | | 18,777 | |
| Goodwill impairment | | | | 17,430 | |
| Asset impairment loss | | 18,741 | | | |
| Loss on disposition of property | 1,513 | 19 | 255 | 19 | 128 |
| Other expenses from managed properties(1) | 11,315 | 11,083 | 4,166 | | |
| Other expenses from managed properties affiliates(1) | 10,858 | 10,989 | 17,132 | 19,826 | 11,477 |
| Total operating expenses | 275,138 | 287,441 | 253,727 | 258,166 | 176,072 |
| Net operating income (loss) | 21,570 | (11,481) | 2,512 | (22,325) | 1,017 |
| Gain on sale of unconsolidated affiliates | | | (962) | | |
| Investment income affiliates | (902) | (1,088) | (1,330) | (2,187) | (667) |
| Interest income | (210) | (543) | (637) | (1,405) | (2,738) |

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| | | | | | |
|--|-------------|-------------|-------------|-------------|------------|
| Interest expense | 47,902 | 45,540 | 33,304 | 26,645 | 14,241 |
| Loss before income taxes and equity in unconsolidated affiliates | (25,220) | (55,390) | (27,863) | (45,378) | (9,819) |
| Income tax expense (benefit) | 7,086 | (5,403) | 220 | (10,998) | (4,010) |
| Equity in unconsolidated affiliates, net of tax | 18 | 576 | 2,435 | 3,349 | 1,547 |
| Net loss from continuing operations | (32,324) | (50,563) | (30,518) | (37,729) | (7,356) |
| Discontinued operations, net of tax | (6,634) | 455 | 27,958 | 2,996 | 2,677 |
| Net loss | (25,690) | (51,018) | (58,476) | (40,725) | (10,033) |
| Net income attributable to non controlling interest, net of tax | (27) | (9) | | | (452) |
| Net loss attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (51,009) | \$ (58,476) | \$ (40,725) | \$ (9,581) |

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| | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|--|-------------|-------------|-------------|-------------|
| | (Dollars in thousands, except per share amounts) | | | | |
| Loss per share of common stock basic and diluted: | | | | | |
| Loss from continuing operations, net of net income attributable to non controlling interest, net of tax | \$ (1.03) | \$ (1.63) | \$ (0.99) | \$ (1.22) | \$ (0.23) |
| Income (loss) from discontinued operations, net of tax | 0.21 | \$ (0.02) | \$ (0.91) | \$ (0.10) | \$ (0.08) |
| Basic and diluted loss per common share | \$ (0.82) | \$ (1.65) | \$ (1.90) | \$ (1.32) | \$ (0.31) |
| Weighted average common shares outstanding Basic(2) | 31,332,325 | 30,987,818 | 30,749,318 | 30,827,860 | 30,533,249 |
| Diluted(2) | 31,332,325 | 30,987,818 | 30,749,318 | 30,827,860 | 30,533,249 |
| Other comprehensive loss, net of tax: | | | | | |
| Net loss | \$ (25,690) | \$ (51,018) | \$ (58,476) | \$ (40,725) | \$ (10,033) |
| Unrealized (gain) loss on interest rate swaps | | | | (387) | 387 |
| Comprehensive loss | \$ (25,690) | \$ (51,018) | \$ (58,476) | \$ (40,338) | \$ (10,420) |
| Comprehensive loss attributable to noncontrolling interest | (27) | (9) | | | (452) |
| Comprehensive loss attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (51,009) | \$ (58,476) | \$ (40,338) | \$ (9,968) |
| Cash Flows: | | | | | |
| Cash flows provided by (used in): | | | | | |
| Operating activities | \$ 28,868 | \$ 29,112 | \$ 12,215 | \$ 33,534 | \$ 29,751 |
| Investing activities | (5,013) | (4,478) | (36,659) | (144,612) | (206,967) |
| Financing activities | (27,076) | (8,559) | 31,126 | 106,712 | 99,035 |
| Balance Sheet Data (end of period): | | | | | |
| Total assets | \$ 711,322 | \$ 771,238 | \$ 805,744 | \$ 840,061 | \$ 770,805 |
| Total debt | 515,174 | 552,298 | 550,071 | 507,051 | 396,302 |
| Non-GAAP financial Measures: | | | | | |
| EBITDA(3) | \$ 83,012 | \$ 47,666 | \$ 31,791 | \$ 18,181 | \$ 32,305 |

- Reflects reimbursement of payroll, benefits and costs related to the operations of properties managed by us.
- Included in the total shares outstanding of our common stock are 11,765 shares (in 2008-2011) and 129,412 shares (in 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.
- EBITDA is a non-GAAP performance measure. We define EBITDA as net income (loss) attributable to Great Wolf Resorts, Inc. on a consolidated basis, adjusted to exclude the following items:

interest expense, net of interest income,

income tax expense or benefit, and

depreciation and amortization.

Our management uses EBITDA: (i) 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; (ii) for planning purposes, including the preparation of our annual operating budget; (iii) 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 (iv) as one measure in determining the value of other acquisitions and dispositions.

We believe that EBITDA is an operating performance measure, and not a liquidity measure, that provides investors and analysts with a measure of operating results unaffected by differences in capital structures, capital investment cycles and ages of related assets among otherwise comparable companies. We also present EBITDA because it is used by some investors as a way to measure our ability to incur and service debt, make capital expenditures and meet working capital requirements. We believe EBITDA is useful to an investor in evaluating our operating

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performance because: (i) a significant portion of our assets consists of property and equipment that are depreciated over their remaining useful lives in accordance with generally accepted accounting principles (GAAP); (ii) it is widely used in the hospitality and entertainment industries to measure operating performance

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without regard to items such as depreciation and amortization; and (iii) 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. EBITDA is a measure commonly used in our industry, and we present EBITDA to enhance your understanding of our operating performance. We use EBITDA as one criterion for evaluating our performance relative to that of our peers.

The following table reconciles net loss attributable to Great Wolf Resorts, Inc. to EBITDA for the periods presented (prior to the reclassification for discontinued operations):

| | Year Ended December 31, | | | | |
|---|--------------------------------|------------------|------------------|------------------|------------------|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| Net loss attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (51,009) | \$ (58,476) | \$ (40,725) | \$ (9,581) |
| Interest expense, net of interest income | 47,768 | 45,721 | 33,430 | 25,853 | 12,129 |
| Income tax expense (benefit) | 7,084 | (5,513) | 459 | (13,028) | (6,615) |
| Depreciation and amortization | 53,823 | 58,467 | 56,378 | 46,081 | 36,372 |
| EBITDA | \$ 83,012 | \$ 47,666 | \$ 31,791 | \$ 18,181 | \$ 32,305 |

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations of Great Wolf Resorts Inc. is a discussion of our financial condition, results of operations and liquidity and capital resources for the fiscal years ended December 31, 2011, 2010 and 2009 and should be read in conjunction with the consolidated financial statements and the related notes that appear elsewhere herein. Certain statements we make under this section constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. See Forward-Looking Statements included elsewhere in this report. You should consider our forward-looking statements in light of the risks discussed under the heading Risk Factors above as well as our consolidated financial statements, related notes, and other financial information appearing elsewhere in this report.

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, licensor, operator and developer in North America of drive-to destination family resorts featuring indoor waterparks and other family-oriented entertainment activities based on the number of resorts in operation. We operate and license resorts under our Great Wolf Lodge® brand name. Each of our resorts features approximately 300 to 600 family suites, each of which sleeps from six to ten people and includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our primary 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. Several of our resorts have significant meeting space or conference centers, allowing us to also attract groups in addition to our leisure guests. Our resorts are open year-round and provide a consistent, comfortable environment where our guests can enjoy our various amenities and activities. We own and operate several of the resorts in our portfolio; we have also entered into licensing and management arrangements with third-parties relating to the operation of resorts under the Great Wolf Lodge brand name.

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, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

Each of our Great Wolf Lodge resorts has a Northwoods lodge theme, designed in a Northwoods cabin motif with exposed timber beams, massive stone fireplaces, Northwoods creatures including mounted wolves and an animated two-story Clock Tower that provides theatrical entertainment for younger guests. All of our guest suites are themed luxury suites, ranging in size from approximately 385 square feet to 925 square feet.

The indoor waterparks in our Great Wolf Lodge resorts range in size from approximately 34,000 to 84,000 square feet and include decorative rockwork and plantings. The focus of each Great Wolf Lodge waterpark is our signature 12-level treehouse water fort, an interactive water experience for the entire family that features over 60 water effects and is capped by an oversized bucket that dumps between 700 and 1,000 gallons of water every five minutes. Our waterparks also feature a combination of high-speed body slides and inner tube

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waterslides, smaller and lower speed slides for younger children, zero-depth water activity pools with geysers, a water curtain, fountains and tumble buckets, a lazy river, additional activity pools for basketball, open swimming and other water activities and large free-form hot tubs, including hot tubs for adults only.

In June 2010 we acquired a 62.4% equity interest in Creative Kingdoms, LLC (CK) in exchange for all of the \$8,700 principal balance, plus accrued interest of approximately \$1,300, of convertible indebtedness owed to us by Creative Kingdoms. Creative Kingdoms is a developer of experiential gaming products including MagiQuest, an interactive game attraction available at ten of our resorts. Creative Kingdoms also licenses or has sold to other parties several stand-alone MagiQuest facilities or similar attractions.

In June 2010 we announced that we have executed license and management agreements related to the development of a new 600-suite Great Wolf Lodge resort in Garden Grove, California's world famous International West Resort. When and if completed, the new resort will be located less than two miles from Disneyland, near Anaheim and Los Angeles. It is proposed to be developed by McWhinney, a diversified real estate company. When and if completed, we will receive license fees for use of the Great Wolf Lodge brand name and other intellectual property at the resort, and will receive management fees to operate the resort on behalf of the owner. We expect that the resort will be owned by a joint venture, with Great Wolf Resorts receiving a minority equity interest for its development-related services. Additionally, the City of Garden Grove will contribute cash and bond proceeds to the resort, as well as establish a financing district to develop an adjacent parking structure.

Properties. The following table presents an overview of our portfolio of resorts. As of December 31, 2011, we operate, manage and/or have entered into licensing arrangements relating to the operation of 11 Great Wolf Lodge resorts (our signature Northwoods-themed resorts). We anticipate that most of our future resorts will be licensed and/or developed under our Great Wolf Lodge brand, but we may operate and/or enter into licensing arrangements with other resorts using different brands in appropriate markets.

| | Ownership Percentage | Opened | Number of Guest Suites | Indoor Entertainment Area(1) (Approx. sq. ft.) |
|-------------------------|-------------------------|--------|------------------------------|---|
| Wisconsin Dells, WI(3) | | 1997 | 385(2) | 102,000 |
| Sandusky, OH(3) | | 2001 | 271 | 41,000 |
| Traverse City, MI | 100% | 2003 | 280 | 57,000 |
| Kansas City, KS | 100% | 2003 | 281 | 57,000 |
| Williamsburg, VA(4) | 100% | 2005 | 405 | 87,000 |
| Pocono Mountains, PA(4) | 100% | 2005 | 401 | 101,000 |
| Niagara Falls, ONT(5) | | 2006 | 406 | 104,000 |
| Mason, OH(4) | 100% | 2006 | 401 | 105,000 |
| Grapevine, TX(4) | 100% | 2007 | 605 | 110,000 |
| Grand Mound, WA(6) | 49% | 2008 | 398 | 74,000 |
| Concord, NC(4) | 100% | 2009 | 402 | 97,000 |

- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room, family tech center, MagiQuest® (an interactive game attraction) and fitness room, as well as our spa in the resorts that have such amenities.
- (2) Total number of guest suites included 77 condominium units that are individually owned by third parties and managed by us.
- (3) These properties are owned by CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties. We currently manage both properties and license the Great Wolf Lodge brand to these resorts.

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- (4) Five of our properties (Great Wolf Lodge resorts in Williamsburg, VA; Pocono Mountains, PA; Mason, OH; Grapevine, TX and Concord, NC) each had a book value of fixed assets equal to ten percent or more of our total assets as of December 31, 2011 and each had total revenues equal to ten percent or more of our total revenues for the year ended December 31, 2011.
- (5) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016.
- (6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We manage 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 the United States Department of the Interior, which is trustee for Chehalis.

On March 24, 2011 we sold our resort operated under our Blue Harbor Resort brand name in Sheboygan, WI. We continue to license the Blue Harbor Resort and related trade names to the buyer at no fee. As of March 24, 2011, we no longer operated this resort or managed the condominium units there.

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

We believe that these resorts have proven popular because of 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 or developer other than Great Wolf Resorts has established a national portfolio of destination family entertainment resorts featuring indoor waterparks.

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 Hotel & Leisure Advisors, LLC (H&LA) survey as of July 2011 indicates that there are 141 open indoor waterpark resort properties in the United States and Canada. Of the total, 47 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 47 properties, 11 are our properties.

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

Outlook. We believe that no other operator or developer other than us has established a national portfolio of destination family entertainment resorts that feature indoor waterparks. Our resorts do, however, compete directly with other family entertainment resorts in several of our markets. We intend to continue to expand our portfolio of resorts throughout the United States and to selectively seek licensing and management opportunities domestically and internationally.

The resorts we plan to develop, license and/or operate in the future require significant industry knowledge and substantial capital resources. Our external growth strategy going forward is to seek joint venture, licensing and management opportunities. We expect each of these joint venture arrangements would involve us having a minority or no ownership interest in the new resort. We believe there are opportunities to capitalize on our existing brand and operational platforms with lower capital requirements from us than if we were the sole or majority owner of the new resort.

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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 growth strategies are:

leveraging our competitive advantages and increasing domestic geographic diversification through a license-based business model and joint venture investments in target markets,

expanding our brand footprint internationally,

selective sales/dispositions of ownership interests/recycling of capital,

expanding and enhancing existing resorts,

continuing to innovate,

maximizing total resort revenues,

minimizing total resort costs,

building upon our existing brand awareness and loyalty, and

expanding operations of our majority-owned subsidiary, Creative Kingdoms.

In attempting to execute our internal and external growth strategies, we are subject to a variety of business challenges and risks. These risks include those described under Risk Factors Risks Related to Our Business Activities and Risk Factors Risks Related to Regulation. We seek to meet these challenges by providing sufficient management oversight to site selection, development and resort operations; concentrating on growing and strengthening awareness of our brand and demand for our resorts; and maintaining our focus on safety.

Our business model is highly dependent on consumer spending, because the majority of our revenues are earned from leisure guests and a vacation experience at one of our resorts is a discretionary expenditure for a family. Over the past several years, the slowdown in the U.S. economy and accompanying economic recession has led to a decrease in credit for consumers and a related decrease in consumer discretionary spending. This trend continued through 2011 as consumers experienced several negative economic impacts, including:

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

increasing energy and commodity prices (particularly food) in 2010 and 2011;

a high national unemployment rate;

economic uncertainty due to potential sovereign defaults;

a slowdown in economic growth and lack of consistent job creation during 2011;

a continuing decline in the national average of home prices and an increase in the national home foreclosure rate; and

high volatility in the stock market that led to substantial declines in stock values and aggregate household savings from 2007 to 2010. These and other factors impact the amount of discretionary income for consumers and consumer sentiment toward discretionary purchases. As a result, these types of items could negatively impact consumer spending in future periods. While we believe the convenience, quality and overall affordability of a stay at one of our resorts continues to be an attractive alternative to other potential family vacations, a sustained decrease in overall consumer discretionary spending could have a material adverse effect on our overall results.

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We develop resorts with expectations of achieving certain financial returns on a resort's operation. The economic slowdown of the past several years has materially and adversely affected our ability to achieve the operating results for our resorts that we had expected to achieve when those resorts were first planned and developed. Also:

We believe that our Traverse City and Sandusky resorts have been and will continue to be affected by especially adverse general economic circumstances in the Michigan/Northern Ohio region (such as bankruptcies of several major companies and/or large announced layoffs by major employers) and increased competition that has occurred in these markets over the past few years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts' largest source 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.

In 2010, the master servicer for our loan that is secured by our Traverse City and Kansas City resorts implemented a lock-box cash management arrangement due to the properties not meeting a minimum debt service coverage ratio test under the loan. The loan is not in default and the outstanding principal balance is not due currently, but accounting rules require us to classify the entire loan balance as a current liability as of December 31, 2011. We recorded an \$18,741 impairment charge in 2010 related to our Traverse City and Kansas City resorts to reflect a decline in their estimated fair value. Although the operating performance of the two properties securing this loan has improved in 2011, we expect the properties to continue to be affected by the regional economic decline experienced over the past several years and to produce operating results below what they had produced prior to 2008.

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

We experienced much lower than expected occupancy and lower than expected average daily room rates at our Sheboygan, Wisconsin property since its opening in 2004. We believe this operating weakness was primarily attributable to the fact that the overall development of downtown Sheboygan as a tourist destination lagged materially behind our initial expectations. We believe this materially impacted the consumer demand for our indoor waterpark resort in that market and the operations of the resort. We recorded a \$24,000 impairment charge in 2009 relating to our Sheboygan resort and, in March 2011, we disposed of this resort.

Our external growth strategies are based primarily on;

developing additional indoor waterpark resorts,

converting existing indoor waterpark resorts to our brands (in conjunction with joint venture partners), or by

licensing our intellectual property and proprietary management 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 financing for ground-up construction. 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 to us and other investors and/or

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developers may be more restrictive in the future and that terms of construction financing may be less favorable than was the case through 2008. Although we believe that we and other investors and/or developers may be able to continue to obtain construction financing sufficient to execute development strategies, we expect that the more difficult credit market environment is likely to continue at least through 2012.

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 earnings before interest, taxes, depreciation and amortization, (EBITDA). Rooms revenue accounted for approximately 68% of our total consolidated resort revenue for the year ended December 31, 2011. We employ sales and marketing efforts to increase overall demand for rooms at our resorts. We seek to optimize the relationship between room rates and occupancies through the use of yield management techniques that attempt to project demand in order to selectively increase room rates during peak demand. These techniques are designed to assist us in managing our higher occupancy nights to achieve maximum rooms revenue and include such practices as:

monitoring our historical trends for occupancy and estimating our high occupancy nights,

offering the highest discounts to previous guests in off-peak periods to build guest loyalty and enhance our ability to charge higher rates in peak periods,

structuring rates to allow us to offer our previous guests the best rate while simultaneously working with a promotional partner or offering internet specials,

monitoring sales of room types daily to evaluate the effectiveness of offered discounts, and

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

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

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

occupancy;

average daily room rate, or ADR;

revenue per available room, or RevPAR;

total revenue per occupied room, or Total RevPOR;

total revenue per available room, or Total RevPAR;

non-rooms revenue per occupied room; and

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

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

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

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

RevPAR is the product of occupancy and ADR.

Total RevPOR, Total RevPAR and non-rooms revenue per occupied room are defined as follows:

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

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

Non-rooms revenue per occupied room is calculated by taking the difference between Total RevPOR and ADR. Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. 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, 2011, approximately 32% of our total consolidated resort revenues consisted of non-rooms revenue.

We use RevPAR and Total RevPAR to evaluate the blended effect that changes in occupancy, ADR and Total RevPOR have on our results. We focus on increasing ADR and Total RevPOR because we believe those increases can have the greatest positive impact on our results. 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 generally result in a greater increase in operating cash flow.

We also use EBITDA as a measure of our operational performance of each of our resorts. EBITDA is a supplemental financial measure and is not defined by accounting principles generally accepted in the United States (GAAP). See *Non-GAAP Financial Measures* below for further discussion of our use of EBITDA and a reconciliation to net loss attributable to Great Wolf Resorts, Inc.

Critical Accounting Policies and Estimates

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

Acquisition Accounting We follow acquisition accounting for all acquisitions that meet the business combination definition. Acquisition accounting requires us to measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest at the acquisition-date fair value. While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operations.

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.

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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 |
| Fixtures and equipment, including waterpark equipment | 3-15 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 loss 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 a larger net loss 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.

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.

During the year ended December 31, 2010, we recorded \$18,741 of impairment charges related to our Traverse City and Kansas City resorts. We determined the carrying values of these resorts were impaired in light of the reduced estimated hold periods for the resorts. Because of the reduced estimated hold periods, we performed recoverability tests of these resorts to determine if further assessment for potential impairment was required. Based on this analysis of undiscounted cash flows, we determined the carrying value of these resorts were not recoverable. As a result, we recorded an \$18,741 impairment charge to decrease the resorts' carrying value to their estimated fair value (net of estimated disposal costs) as of December 31, 2010. We estimated the properties' fair values by using available market information for similar assets, as well as considering estimated future cash flows, terminal values based on the projected cash flows and capitalization rates in the range of what is reported in industry publications for operationally similar assets and other available market information. The cash flows considered in estimating the fair values were discounted using market-based discounts generally used for operationally and geographically similar assets. Although we believe our estimated fair value for the resorts are reasonable, the actual fair value we ultimately realize from these resorts could differ materially from these estimates.

Because of triggering events that occurred in 2009 related to our Sheboygan resort, including changes in the expectation of how long we would hold this property, current period and historical operating losses and the deterioration in the current market conditions, we performed a recoverability test of this resort to determine if further assessment for potential impairment was required. Based on this analysis of undiscounted cash flows, we determined the carrying value of this resort was not recoverable. As a result, we recorded a \$24,000 impairment charge to decrease the resort's carrying value to its estimated fair value (net of estimated disposal costs) in 2009. To determine the estimated fair value for purposes of calculating the impairment charge, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets.

Intangible Assets Our consolidated balance sheet as of December 31, 2011 reflects \$26,675 of intangible assets mainly related to our Great Wolf Lodge brand name. This brand name intangible asset has an indefinite life. We are required to assess indefinite-lived intangible assets for impairment annually, or more frequently if

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circumstances indicate impairment may have occurred. 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 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.

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.

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 of our 49% interest in our joint venture that owns the Great Wolf Lodge in Grand Mound was \$24,311 as of December 31, 2011.

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 statement 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 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 not be able to realize our deferred tax assets, we would establish a valuation allowance which would increase the provision for income taxes. Conversely, 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.

As of December 31, 2011 and 2010, we recorded valuation allowances of \$48,965 and \$35,564, respectively, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire. The valuation allowance we recorded is based on our estimates of taxable income solely from the reversal of existing deferred tax liabilities and the period over which deferred tax assets reverse. In the event that actual results differ from these estimates or we adjust these estimates in a future period, we may need to increase or decrease our valuation allowance, which could materially impact our consolidated statement of operations.

New Accounting Pronouncements

In December 2010, the FASB issued guidance which (1) does not prescribe a specific method of calculating the carrying value of a reporting unit in the performance of step 1 of the goodwill

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impairment test and (2) requires entities with a zero or negative carrying value to assess, considering certain qualitative factors, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that a goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. This guidance will be effective for impairment tests performed during fiscal years (and interim periods within those years) that begin after December 15, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued guidance that clarifies and changes the application of various fair value measurement principles and disclosure requirements. This guidance is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued guidance that permits an entity an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further impairment testing is required. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Non-GAAP Financial Measures

We use EBITDA as a measure of our operating performance. EBITDA is a supplemental non-GAAP financial measure. EBITDA is commonly defined as net income (loss) attributable to Great Wolf Resorts, Inc., plus (a) net interest expense from continuing operations and discontinued operations, (b) income taxes from continuing operations and discontinued operations, and (c) depreciation and amortization from continuing operations and discontinued operations.

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

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

Some of these limitations are:

it does not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments;

it does not reflect the significant interest expense or the cash requirements necessary to service interest or principal payments on our debt;

although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced or require improvements in the future, and our EBITDA-based measures do not reflect any cash requirements for such replacements or improvements;

it is not adjusted for all non-cash income or expense items that are reflected in our statements of cash flows;

it does not reflect limitations on our costs related to transferring earnings from our subsidiaries to us; and

other companies in our industry may calculate these measures differently than we do, limiting their usefulness as a comparative measure.

Because of these limitations, our EBITDA-based measures should not be considered as measures of discretionary cash available to us to invest in the growth of our business or as measures of cash that will be available to us to meet our obligations. We compensate for these limitations by using our EBITDA-based measures along with other comparative tools, together with GAAP measurements, to assist in the evaluation of operating performance. Such GAAP measurements include operating income (loss), net income (loss), cash flows from operations and cash flow data. We have significant uses of cash flows, including capital expenditures, interest payments, debt principal repayments, taxes and other non-recurring charges, which are not reflected in our EBITDA-based measure.

EBITDA is not intended as an alternative to net income (loss) as an indicator of our operating performance, as an alternative to any other measure of performance in conformity with GAAP or as an alternative to cash flow provided by operating activities as measures of liquidity. You should therefore not place undue reliance on our EBITDA-based measures or ratios calculated using these measures. Our GAAP-based measures can be found in our consolidated financial statements and related notes, included elsewhere in this report.

The following table reconciles net loss attributable to Great Wolf Resorts, Inc. to EBITDA for the periods presented (prior to the reclassification for discontinued operations).

| | Year Ended December 31, | | |
|---|-------------------------|------------------|------------------|
| | 2011 | 2010 | 2009 |
| Net loss attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (51,009) | \$ (58,476) |
| Interest expense, net of interest income | 47,768 | 45,721 | 33,430 |
| Income tax expense (benefit) | 7,084 | (5,513) | 459 |
| Depreciation and amortization | 53,823 | 58,467 | 56,378 |
| EBITDA | \$ 83,012 | \$ 47,666 | \$ 31,791 |

Results of Operations

General

Our financial information includes:

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

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our wholly-owned resorts;

beginning in June 2010, our CK subsidiary which is a developer of experiential gaming products, less our noncontrolling interest; and

our equity interests in the Wisconsin Dells and Sandusky resorts through August 2009, when we sold our minority ownership interests in those resorts, and our equity interest in Grand Mound resort in which we have a minority ownership interest but which we do not consolidate.

Revenues. Our revenues consist of:

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

revenue from our CK subsidiary, which includes product sales, admission fees and retail revenues;

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

other revenue from managed properties. We employ the staff at our managed properties. Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the operations of the managed properties. We include the reimbursement of payroll, benefits and costs is recorded as revenue on our statements of operations, with a corresponding expense recorded as other expenses from managed properties.

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

Our other operating expenses include the following items:

selling, general and administrative expenses, which are associated with the operations and management of resorts and our CK subsidiary (beginning in June 2010) and which consist primarily of expenses such as corporate payroll and related benefits, operations management, sales and marketing, finance, legal, information technology support, human resources and other support services, as well as general corporate expenses;

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

depreciation and amortization; and

other expenses from managed properties.

Year Ended December 31, 2011 compared with Year Ended December 31, 2010

The following table shows key operating statistics for our resorts for the years ended December 31, 2011 and 2010:

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| | All Properties | | Same Store Comparison(a) | | |
|-------------------------------------|----------------|-----------|--------------------------|---------------------|--------|
| | 2011 | 2011 | 2010 | Increase (Decrease) | |
| | | | | \$ | % |
| Occupancy | 63.0% | 63.3% | 59.7% | N/A | 6.0% |
| ADR | \$ 259.52 | \$ 260.10 | \$ 252.30 | \$ 7.80 | 3.1% |
| RevPAR | \$ 163.51 | \$ 164.58 | \$ 150.60 | \$ 13.98 | 9.3% |
| Total RevPOR | \$ 394.64 | \$ 395.18 | \$ 387.83 | \$ 7.35 | 1.9% |
| Total RevPAR | \$ 248.65 | \$ 250.05 | \$ 231.50 | \$ 18.55 | 8.0% |
| Non-rooms revenue per occupied room | \$ 135.12 | \$ 135.08 | \$ 135.53 | \$ (0.45) | (0.3)% |

(a) Same store comparison includes properties that were open for the full periods and with comparable number of rooms in 2011 and 2010 (that is, all properties other than our Blue Harbor Resort in Sheboygan, WI).

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The positive changes in key operating statistics for the year ended December 31, 2011, compared to the year ended December 31, 2010, appear to be the result of:

incremental stabilization of economic conditions, which appear to be having a positive impact on consumer sentiment and spending patterns; and

an increase in overall consumer demand for our properties.

Presented below are selected amounts from our consolidated statements of operations for the years ended December 31, 2011 and 2010:

| | 2011 | 2010 | Increase (Decrease) |
|---|------------|------------|------------------------|
| Revenues | \$ 296,708 | \$ 275,960 | \$ 20,748 |
| Operating expenses: | | | |
| Departmental operating expenses | 98,024 | 90,212 | 7,812 |
| Property operating costs | 35,373 | 33,004 | 2,369 |
| Depreciation and amortization | 53,723 | 58,318 | (4,595) |
| Asset impairment loss | | 18,741 | (18,741) |
| Loss on disposition of assets | 1,513 | 19 | 1,494 |
| Net operating income (loss) | 21,570 | (11,481) | 33,051 |
| Interest expense, net of interest income | 47,692 | 44,997 | 2,695 |
| Income tax (benefit) expense | 7,086 | (5,403) | 12,489 |
| Discontinued operations, net of tax | (6,634) | 455 | (7,089) |
| Net loss attributable to Great Wolf Resorts, Inc. | (25,663) | (51,009) | 25,346 |

Revenues. Total revenues increased due to the following:

More stable economic conditions with corresponding strengthening in consumer confidence and discretionary spending, which positively affected our business;

An increase in consumer demand for our properties; and

The inclusion of CK as a consolidated subsidiary for a full twelve months in 2011 following our acquisition of a 62.4% equity interest in June 2010.

Operating expenses.

Departmental operating expenses increased by \$7,812 for the year ended December 31, 2011, as compared to the year ended December 31, 2010, due primarily to an increase in revenues and the acquisition of CK.

Property operating costs increased by \$2,369 for the year ended December 31, 2011, as compared to the year ended December 31, 2010, due primarily to an increase in property tax expenses at certain of our properties.

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Total depreciation and amortization decreased, primarily due to a smaller write-off of unamortized debt issuance costs during the year ended December 31, 2011 as compared to the year ended December 31, 2010. During the year ended December 31, 2011, we wrote off \$1,850 of unamortized debt issuance costs related to our Concord loan that we refinanced. During the year ended December 31, 2010 we wrote off \$3,500 related to our then-existing Williamsburg, Mason and Grapevine loans that were repaid with the net proceeds of the first mortgage notes.

Loss on disposition of assets increased primarily due to a loss related to CK as well as the closing of our Scoops Kid Spa in the Mall of America during the year ended December 31, 2011. There were no similar losses during the year ended December 31, 2010.

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For the year ended December 31, 2010 we recorded a \$18,741 impairment loss related to our Traverse City and Kansas City resorts.

There was no similar impairment loss during the year ended December 31, 2011.

Net operating income. During the year ended December 31, 2011, we had net operating income of \$21,570 as compared to a net operating loss of \$11,481 for the year ended December 31, 2010.

Net loss attributable to Great Wolf Resorts, Inc. Net loss attributable to Great Wolf Resorts, Inc. decreased due to:

An increase in net operating income of \$33,051; and

During the year ended December 31, 2011 we disposed of our Blue Harbor Resort in Sheboygan, WI and have included the property's operations in discontinued operations for the year ended December 31, 2011 and 2010. Included in discontinued operations for the year ended December 31, 2011 is a gain on sale of \$6,667.

These increases were partially offset by:

An increase in net interest expense of \$2,695, mainly due to interest expense related to our first mortgage notes issued in April 2010; and

An increase in income tax expense of \$12,489 recorded in the year ended December 31, 2011 as compared to the year ended December 31, 2010. The increase in income tax expense was mainly due to an increase in our valuation allowance of \$13,401. The increase to our valuation allowance was due to the sale of our Blue Harbor Resort and an increase in our deferred tax assets mainly related to our net operating loss carryforwards. Our valuation allowance increased due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire.

Year Ended December 31, 2010 compared with Year Ended December 31, 2009

The following table shows key operating statistics for our resorts for the years ended December 31, 2010 and 2009:

| | All Properties(a) | | Same Store Comparison(b) | | Increase | |
|-------------------------------------|-------------------|-----------|--------------------------|----------|----------|------|
| | 2010 | 2010 | 2009 | \$ | % | |
| Occupancy | 59.1% | 59.8% | 59.5% | N/A | | 0.5% |
| ADR | \$ 249.32 | \$ 249.22 | \$ 241.75 | \$ 7.47 | | 3.1% |
| RevPAR | \$ 147.27 | \$ 149.02 | \$ 143.74 | \$ 5.28 | | 3.7% |
| Total RevPOR | \$ 384.30 | \$ 384.46 | \$ 373.68 | \$ 10.78 | | 2.9% |
| Total RevPAR | \$ 227.00 | \$ 229.89 | \$ 222.18 | \$ 7.71 | | 3.5% |
| Non-rooms revenue per occupied room | \$ 134.98 | \$ 135.24 | \$ 131.93 | \$ 3.31 | | 2.5% |

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

(b) Same store comparison includes properties that were open for the full periods and with comparable number of rooms in 2010 and 2009.

The changes in key operating statistics for the year ended December 31, 2010, compared to the year ended December 31, 2009, appear to be the result of some incremental stabilization of economic conditions, which appeared to have a positive impact on consumer sentiment and spending patterns.

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Presented below are selected amounts from our consolidated statements of operations for the years ended December 31, 2010 and 2009:

| | 2010 | 2009 | Increase (Decrease) |
|---|------------|------------|------------------------|
| Revenues | \$ 275,960 | \$ 256,239 | \$ 19,721 |
| Operating expenses: | | | |
| Departmental operating expenses | 90,212 | 83,862 | 6,350 |
| Selling, general and administrative | 65,075 | 58,731 | 6,344 |
| Property operating costs | 33,004 | 36,212 | (3,208) |
| Depreciation and amortization | 58,318 | 53,369 | 4,949 |
| Asset impairment loss | 18,741 | | 18,741 |
| Net operating (loss) income | (11,481) | 2,512 | (13,993) |
| Gain on sale of unconsolidated affiliate | | (962) | 962 |
| Interest expense, net of interest income | 44,997 | 32,667 | 12,330 |
| Income tax (benefit) expense | (5,403) | 220 | (5,623) |
| Discontinued operations, net of tax | 455 | 27,958 | (27,503) |
| Net loss attributable to Great Wolf Resorts, Inc. | (51,009) | (58,476) | 7,467 |

Revenues. Total revenues increased primarily due to the following:

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

More stable national economic conditions with corresponding strengthening in consumer confidence and discretionary spending, which positively affected our business.

The inclusion of CK as a consolidated subsidiary following our acquisition of a 62.4% equity interest in June 2010. We had no similar revenues from CK for the year ended December 31, 2009.

Operating expenses.

Departmental expenses increased by \$6,350 for the year ended December 31, 2010, as compared to the year ended December 31, 2009, due primarily to the opening of our Concord resort in March 2009 as well as the acquisition of CK, which we completed in June 2010. There were no similar CK expenses for the year ended December 31, 2009.

Total selling, general and administrative expenses increased by \$6,344 in the year ended December 31, 2010, as compared to the year ended December 31, 2009, due primarily to the opening of our Concord and the acquisition of CK. These increases are partially offset by a settlement received at our Poconos resort related to wastewater treatment litigation during the year ended December 31, 2010.

Opening-related costs (included in total property operating costs) related to our resort were \$5,599 for the year ended December 31, 2009, due primarily to the opening of an expansion to our Grapevine resort in January 2009 and the opening of our Concord resort in March 2009. We had \$156 of opening-related costs related to the opening of our stand-alone Scoops Kid Spa in the Mall of America during the year ended December 31, 2010.

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Total depreciation and amortization increased for the year ended December 31, 2010, as compared to the year ended December 31, 2009, primarily due to the expansion of our Grapevine property in January 2009, the opening of our Concord resort in March 2009, the acquisition of CK in June 2010, and the expensing of \$3,500 of unamortized loan fees related to our Williamsburg, Mason and Grapevine loans that were repaid with the net proceeds of the first mortgage notes issued in April 2010.

For the year ended December 31, 2010 we recorded a \$18,741 impairment loss related to our Traverse City and Kansas City resorts. We had no similar charge in the year ended December 31, 2009.

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Net operating loss. During the year ended December 31, 2010, we had net operating loss of \$11,481 as compared to a net operating income of \$2,512 for the year ended December 31, 2009.

Net loss attributable to Great Wolf Resorts, Inc. Net loss attributable to Great Wolf Resorts Inc. decreased in 2010 by \$7,467 over 2009 due to:

During the year ended December 31, 2011 we disposed of our Blue Harbor Resort in Sheboygan, WI and so we have included the property's operations in discontinued operations for the years ended December 31, 2010 and 2009. Included in discontinued operations for the year ended December 31, 2009 is an impairment charge on our resort in Sheboygan of \$24,000; and

A decrease in income taxes expense of \$5,623 recorded in the year ended December 31, 2010 as compared to the year ended December 31, 2009.

These increases were partially offset by:

An increase in net operating loss of \$13,993;

An increase in net interest expense of \$12,330, mainly due to interest expense on first mortgage notes issued in April 2010; and

The gain on sale of unconsolidated affiliates in the amount of \$962 recorded in the year ended December 31, 2009. We had no similar gain in the year ended December 31, 2010.

Segments

We are organized into a single operating division. Within that operating division, we have two reportable segments:

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

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

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

| | Year Ended December 31, | | | Increase (Decrease) | |
|--|-------------------------|------------|------------|---------------------|-----------|
| | 2011 | 2010 | 2009 | 2011 | 2010 |
| Resort Ownership/Operation | | | | | |
| Revenues | \$ 260,585 | \$ 240,346 | \$ 227,978 | \$ 20,239 | \$ 12,368 |
| EBITDA | 75,371 | 40,561 | 3,350 | 34,810 | 37,211 |
| Resort Third-Party Management/Licensing | | | | | |
| Revenues | 29,966 | 29,312 | 28,261 | 654 | 1,051 |
| EBITDA | 7,793 | 7,240 | 6,963 | 553 | 277 |
| Other | | | | | |
| Revenues | 6,157 | 6,302 | | (145) | 6,302 |
| EBITDA | (152) | (135) | 21,478 | (17) | (21,613) |

The Other items in the table above includes items that do not constitute a reportable segment and represent corporate-level activities and the activities of other operations not included in Resort Ownership/Operation or Resort Third-Party Management/License segments. In 2010 Resort

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Ownership/Operation EBITDA includes \$18,741 for an asset impairment loss. In 2009 Resort Ownership/Operation EBITDA includes \$24,000 for an asset impairment loss.

For a reconciliation of consolidated EBITDA for each of the periods presented, see the table included in the Non-GAAP Financial Measures section.

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As of December 31, 2011, we had total indebtedness of \$515,174, summarized as follows:

| | |
|---|-------------------|
| Mortgage Debt: | |
| Traverse City/Kansas City mortgage loan | \$ 65,591 |
| Pocono Mountains mortgage loan | 93,015 |
| Concord mortgage loan | 54,055 |
| First mortgage notes (net of discount of \$8,046) | 221,954 |
| Other Long-Term Debt: | |
| Junior subordinated debentures | 80,545 |
| Other | 14 |
| | \$ 515,174 |

Traverse City/Kansas City Mortgage Loan This non-recourse 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, 2011.

While recourse under the loan is limited to the property owner's interest in the mortgaged property, we have provided limited guarantees with respect to certain customary non-recourse provisions and environmental indemnities relating to the loan.

The loan also contains limitations on our ability, without lender's consent, to (i) make payments to our affiliates if a default exists; (ii) enter into transactions with our affiliates; (iii) make loans or advances; or (iv) assume, guarantee or become liable in connection with any other obligations.

The loan requires us to maintain a minimum debt service coverage ratio (DSCR) of 1.35, calculated on a quarterly basis. This ratio is defined as the two collateral properties' combined trailing twelve-month net operating income divided by the greater of (i) the loan's twelve-month debt service requirements and (ii) 8.5% of the amount of the outstanding principal indebtedness under the loan. Failure to meet the minimum DSCR is not an event of default and does not accelerate the due date of the loan. Not meeting the minimum DSCR, however, subjects the two properties to a lock-box cash management arrangement, at the discretion of the loan's servicer. The loan also contains a similar lock-box requirement if we open any Great Wolf Lodge or Blue Harbor Resort within 100 miles of either resort, and the two collateral properties' combined trailing twelve-month net operating income is not at least equal to 1.8 times 8.5% of the amount of the outstanding principal indebtedness under the loan. For the year ended December 31 2011, the DSCR for this loan was 1.16, and the DSCR for this loan has been below 1.35 since the second quarter of 2007.

In September 2010, the loan's master servicer implemented a lock-box cash management arrangement. The lock-box cash management arrangement requires substantially all cash receipts for the two resorts to be moved each day to a lender-controlled bank account, which the loan servicer then uses to fund debt service and operating expenses for the two resorts on a monthly basis, with excess cash flow being deposited in a reserve account and held as additional collateral for the loan. We believe that this arrangement constitutes a traditional lock-box arrangement as discussed in authoritative accounting guidance. Based on that guidance, we have classified the entire outstanding principal balance of the loan as a current liability as of December 31, 2011, since the lock-box arrangement requires us to use the properties' working capital to service the loan, and we do not presently have the ability to refinance this loan to a new, long-term loan. Although the entire principal balance of the loan is classified as a current liability as of December 31, 2011, the loan is not in default, and the principal balance is not due currently.

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At our request, in October 2010 the loan was transferred to its special servicer. We informed the special servicer that, given the current and expected performance at that time of the two properties securing this loan, we might elect to cease the subsidization of debt service on this non-recourse loan. If we were to elect to cease the subsidization of debt service, that may result in a default under the loan agreement. We believe the combined market value of the two properties securing this loan is now significantly less than the principal amount of the loan. The properties had a combined net book value of \$37,758 as of December 31, 2011, which includes the effect of an impairment charge we recorded in 2010 to adjust the carrying value of the properties to their estimated fair value, and the amount of debt outstanding under the loan was \$65,591 as of December 31, 2011.

Through March 2011, we worked with the special servicer to discuss a potential modification of this loan. Those discussions proved unsuccessful and the special servicer has transferred the loan back to the master servicer, where the lock-box arrangement as described above remains in place.

Given improved operating trends and performance at the properties during 2011, we currently expect the properties to generate sufficient cash flow so that our subsidization of debt service, if any, for 2012 will be insignificant to our overall operations. As a result, we currently believe the most likely course of action for 2012 is to continue to operate these properties, assuming these trends continue.

Pocono Mountains Mortgage Loan This loan is secured by a mortgage on our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in January 2017. 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, 2011.

The loan requires us to maintain a minimum DSCR of 1.25, calculated on a quarterly basis. Subject to certain exceptions, the DSCR is increased to 1.35 if we open up a waterpark resort within 75 miles of the property or incur mezzanine debt secured by the resort. This ratio is defined as the property's combined trailing twelve-month net operating income divided by the greater of (i) the loan's twelve-month debt service requirements and (ii) 7.25% of the amount of the outstanding principal indebtedness under the loan. Failure to meet the minimum DSCR is not an event of default and does not accelerate the due date of the loan. Not meeting the minimum DSCR, however, subjects the property to a lock-box cash management arrangement, at the discretion of the loan's servicer. We believe that lock-box arrangement would require substantially all cash receipts for the resort to be moved each day to a lender-controlled bank account, which the loan servicer would then use to fund debt service and operating expenses for the resort, with excess cash flow being deposited in a reserve account and held as additional collateral for the loan. While recourse under the loan is limited to the property owner's interest in the mortgage property, we have provided limited guarantees with respect to certain customary non-recourse provisions and environmental indemnities relating to the loan.

The loan also contains limitations on our ability, without lender's consent, to (i) make payments to our affiliates if a default exists; (ii) enter into transactions with our affiliates; (iii) make loans or advances; or (iv) assume, guarantee or become liable in connection with any other obligations.

Concord Mortgage Loan On July 15, 2011, we entered into a loan agreement to refinance our Concord mortgage loan. We repaid \$20,433 under the original loan using cash on hand. The principal amount of the new loan was \$56,000 and is secured by our Concord resort. This loan bears interest at a floating rate of 30-day LIBOR plus a spread of 500 basis points with a minimum rate of 6.00% per annum (effective rate of 6.00% at December 31, 2011). This loan matures in July 2014 and has a one-year extension available at our option, assuming the property meets certain operating performance thresholds. This loan requires four quarterly principal payments of \$125 each beginning October 1, 2011, and quarterly principal payments of \$375 thereafter.

As part of the loan agreement, the lender requires excess cash from the Concord resort to be swept to the lender on a monthly basis. The lender will hold the excess cash until the end of each quarter and then will either fund the cash back to us to cover any projected cash shortfalls at the property or if there are no shortfalls

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projected, use the excess cash to repay the loan principal balance. The lender has a \$25,000 loan principal guarantee from Great Wolf Resorts. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at December 31, 2011.

In connection with the refinancing transaction, we were required to provide interest rate protection on a portion of the loan amount through the loan's maturity date. Therefore, we executed an interest rate cap that caps the loan at 8.00% interest rate through July 2014 at a cost of \$274. The interest rate cap was designated as an ineffective cash flow hedge. We mark the interest rate cap to market and record the change to interest expense. Also in connection with the refinance transaction, we wrote-off approximately \$1,850 of unamortized debt issuance costs.

First Mortgage Notes In April 2010, we completed a private placement of \$230,000 in aggregate principal amount of our 10.875% first mortgage notes (the Notes) due April 2017. The Notes were sold at a discount that provides an effective yield of 11.875% before transaction costs. We are amortizing the discount over the life of the Notes using the straight-line method, which approximates the effective interest method. The proceeds of the Notes were used to retire the outstanding mortgage debt on our Mason, Williamsburg, and Grapevine properties and for general corporate purposes.

The Notes are senior obligations of GWR Operating Partnership, LLLP and Great Wolf Finance Corp (Issuers). The Notes are guaranteed by Great Wolf Resorts and by our subsidiaries that own three of our resorts and those guarantees are secured by first priority mortgages on those three resorts. The Notes are also guaranteed by certain of our other subsidiaries on a senior unsecured basis.

The Notes require that we satisfy certain tests in order to, among other things: (i) incur additional indebtedness; (ii) make distributions from GWR Operating Partnership, L.L.L.P. to Great Wolf Resorts, Inc.; (iii) repurchase the equity interests in GWR Operating Partnership, L.L.L.P. or to prepay the subordinated debt of GWR Operating Partnership, L.L.L.P. or its subsidiaries; (iv) make investments, (v) enter into affiliate transactions, (vi) sell assets other than in the ordinary course of business or (vii) merge. We are currently restricted from these activities with certain carve-outs, as provided in the indenture.

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 \$1,550 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 junior subordinated debentures with payment terms that mirror the distribution terms of the TPS. The indenture governing the debentures contains limitations on our ability, without the consent of the holders of the debentures, to make payments to our affiliates or for our affiliates to make payments to us if a default exists. 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 debentures 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 July 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.

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Trust III used the proceeds of the offering and our investment to purchase from us \$28,995 of 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 these debentures 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.

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 sheets. For financial reporting purposes, we record interest expense on the corresponding notes in our condensed consolidated statements of operations.

Future Maturities Future principal requirements on long-term debt as of December 31, 2011 are as follows:

| | |
|--------------|-------------------|
| 2012 | \$ 3,834 |
| 2013 | 4,806 |
| 2014 | 55,333 |
| 2015 | 61,558 |
| 2016 | 1,697 |
| Thereafter | 395,992 |
| Total | \$ 523,220 |

As discussed above, the Traverse City/Kansas City mortgage loan is classified as a current liability as of December 31, 2011, due to the implementation of a traditional lock-box arrangement. The future maturities table above, however, reflects future cash principal repayments currently required under the provisions of that loan in the amounts of \$1,746 in 2012, \$1,882 in 2013, \$2,015 in 2014 and \$59,948 in 2015.

Short-Term Liquidity Requirements

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

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

recurring capital expenditures we make at our resorts;

debt maturities within the next year, potentially including a portion of debt maturities of our unconsolidated subsidiary;

property taxes and insurance expenses;

interest expense and scheduled principal payments on outstanding indebtedness;

general and administrative expenses; and

income taxes.

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Historically, we have satisfied our short-term liquidity requirements through a combination of operating cash flows and cash on hand. We believe that cash provided by our operations, together with cash on hand, will be sufficient to fund our short-term liquidity requirements for working capital, capital expenditures and debt service for the next 12 months. In addition, as noted above, in July 2011 we refinanced the mortgage loan on our Concord property that was due in April 2012. We refinanced the existing \$76,433 loan to a new \$56,000 loan, using cash on hand to repay the \$20,433 difference in the two loan amounts. The new loan is due in 2014.

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Long-Term Liquidity Requirements

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

scheduled debt maturities, potentially including a portion of debt maturities of our unconsolidated subsidiary;

costs associated with the development of new resorts;

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

capital contributions and loans to unconsolidated joint ventures.

We expect to meet these needs through a combination of:

existing working capital,

cash provided by operations,

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

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

We believe these sources of capital will be sufficient to provide for our long-term capital needs. We cannot be certain, however, that we will have access to financing sufficient to meet our long-term liquidity requirements on terms that are favorable to us, or at all.

Other than debt maturities, our largest long-term liquidity requirements are expected to be for capital expenditures for our existing resorts, capital expenditures for development of future resorts, and capital contribution or loans to existing joint ventures or joint ventures owning resorts under development or construction.

Expenditures related to capital expenditures for our existing resorts were \$9,323 for the year ended December 31, 2011. We expect to have approximately \$10,000 of such expenditures in 2012.

Due to the current state of the capital markets, which are marked by the general unavailability of debt financing for large commercial real estate construction projects, we do not expect to have significant expenditures for development of new resorts until we have all equity and debt capital amounts fully committed, including our projected ability to fund any required equity contribution to a project. Furthermore, the indenture which governs our first mortgage notes imposes significant restrictions on our ability to invest cash in the development of new resorts or joint ventures that may acquire or develop resorts. We believe these factors will limit the amount of our cash outlays for development of new resorts or capital contributions to joint ventures that develop or acquire resorts that we would license or manage to approximately \$10,000 or less over the next 12 months.

Off Balance Sheet Arrangements

In August 2009 we sold our 30.26% joint venture interest in the joint venture that owns two resorts, Great Wolf Lodge-Wisconsin Dells, Wisconsin and Great Wolf Lodge-Sandusky, Ohio to CNL Income Properties, Inc. We currently manage both properties and license the Great Wolf Lodge brand to the joint venture.

We have one unconsolidated joint venture arrangement at December 31, 2011. We account for our unconsolidated joint venture using the equity method of accounting.

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Our joint venture with The Confederated Tribes of the Chehalis Reservation owns the Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This resort opened in March 2008. This joint venture is a limited liability company. We are a member of that limited liability company with a 49% ownership interest. At December 31, 2011, the joint venture had aggregate outstanding indebtedness to third parties of \$95,270 that matures in 2012. As of December 31, 2011, we have made combined loan and equity contributions, net of loan repayments, of \$27,179 to the joint venture to fund a portion of construction costs of the resort.

Based on the nature of the activities conducted in the joint venture, 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 the joint venture will have a material adverse effect on our financial condition. In connection with the joint venture's extension or refinancing of its existing mortgage loan in 2012, however, we estimate that we may need to contribute approximately \$5,000 to the joint venture to use as a reduction of its current loan balance.

Contractual Obligations

The following table summarizes our contractual obligations as of December 31, 2011:

| | Total | Payment Terms | | | |
|--------------------------------------|------------|---------------------|------------|------------|----------------------|
| | | Less Than 1 Year | 1-3 Years | 3-5 Years | More Than 5 Years |
| Debt obligations(1) | \$ 702,751 | \$ 39,196 | \$ 130,166 | \$ 124,441 | \$ 408,948 |
| Operating lease obligations | 3,103 | 826 | 1,387 | 622 | 268 |
| Reserve on unrecognized tax benefits | 1,298 | | | | 1,298 |
| Total | \$ 707,152 | \$ 40,022 | \$ 131,553 | \$ 125,063 | \$ 410,514 |

(1) Amounts include interest (for fixed rate debt) and principal.

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

Working Capital

We had \$33,767 of available cash and cash equivalents and a working capital deficit of \$62,448 (current assets less current liabilities) at December 31, 2011, compared to the \$36,988 of available cash and cash equivalents and a working capital deficit of \$65,190 at December 31, 2010. The primary reasons for the working capital deficit as of December 31, 2011 and 2010 are:

An increase in accruals related to the issuance of our first mortgage notes that closed in April 2010, and

The classification of our Traverse City/Kansas City mortgage loan (principal balance of \$65,591 as of December 31, 2011) as a current liability due to the lender's implementation of the traditional lock-box arrangement for the two properties. Although the entire principal balance of the loan is classified as a current liability as of December 31, 2011, the loan is not in default, and the principal balance is not currently due.

Cash Flows**Comparison of Year Ended December 31, 2011 to Year Ended December 31, 2010**

Year Ended December 31,

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| | 2011 | 2010 | Decrease |
|---|-------------|-------------|-----------------|
| Net cash provided by operating activities | \$ 28,868 | \$ 29,112 | \$ (244) |
| Net cash used in investing activities | (5,013) | (4,478) | (535) |
| Net cash used in financing activities | (27,076) | (8,559) | (18,517) |

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Operating Activities. The decrease in net cash provided by operating activities resulted primarily from an increase in accounts receivable and other assets and a decrease in accounts payable, accrued expenses and other liabilities during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Investing Activities. The increase in net cash used in investing activities for the year ended December 31, 2011, as compared to the year ended December 31, 2010, resulted primarily from an increase in restricted cash, and partially offset by the proceeds received from our sale of our Sheboygan resort.

Financing Activities. The increase in net cash used in financing activities resulted primarily from an increase in principal payments on long-term debt as it relates to our Concord loan during the year ended December 31, 2011 as compared to the year ended December 31, 2010.

Comparison of Year Ended December 31, 2010 to Year Ended December 31, 2009

| | Year Ended December 31, | | Increase (Decrease) |
|---|-------------------------|-----------|------------------------|
| | 2010 | 2009 | |
| Net cash provided by operating activities | \$ 29,112 | \$ 12,215 | \$ 16,897 |
| Net cash used in investing activities | (4,478) | (36,659) | 32,181 |
| Net cash provided by (used in) financing activities | (8,559) | 31,126 | (39,685) |

Operating Activities. The increase in net cash provided by operating activities resulted primarily from a decrease in accounts receivable and other assets and an increase in accounts payable, accrued expenses and other liabilities during the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Investing Activities. The increase in net cash used in investing activities for the year ended December 31, 2010, as compared to the year ended December 31, 2009, resulted primarily from a decrease in capital expenditures related to our properties that are in service.

Financing Activities. The decrease in net cash provided by financing activities resulted primarily from receiving fewer loan proceeds, net of principal payments, during the year ended December 31, 2010 as compared to the year ended December 31, 2009.

Inflation

Our resort properties are able to change room and amenity rates on a daily basis, so the impact of higher inflation can often be passed along to guests. 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 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. All dollar amounts are in thousands.

As of December 31, 2011, we had total indebtedness of \$515,174. This debt consisted of:

\$65,591 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%. This loan matures in January 2015.

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\$93,015 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%. This loan matures in January 2017.

\$54,055 of variable rate debt secured by one of our resorts. This debt bears interest at a floating annual rate of LIBOR plus a spread of 310 basis points, with a minimum rate of 6.00% per annum. The effective rate was 6.00% at December 31, 2011. This loan matures in July 2014.

\$221,954 (net of discount of \$8,046) of the Notes that are secured by first priority liens on three of our resorts. The Notes bear interest at 10.875%. The notes are due April 2017.

\$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 July 2017.

\$14 related to a capital lease that was entered into in June 2009. The lease matures in May 2012.

As of December 31, 2011, we estimate the total fair value of the indebtedness described above to be \$25,706 less than its 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.

At December 31, 2011, all of our variable rate debt is subject to minimum rate floors. If LIBOR were to increase or decrease by 1% or 100 basis points, there would be no change in interest expense on our variable rate debt based on our debt balances outstanding and current interest rates in effect as of December 31, 2011.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

| | Page No. |
|---|---------------------|
| Consolidated Financial Statements of Great Wolf Resorts, Inc. and Subsidiaries: | |
| <u>Report of Independent Registered Public Accounting Firm</u> | 76 |
| <u>Consolidated Balance Sheets as of December 31, 2011 and 2010</u> | 77 |
| <u>Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009</u> | 78 |
| <u>Consolidated Statements of Equity for the years ended December 31, 2011, 2010 and 2009</u> | 79 |
| <u>Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009</u> | 80 |
| <u>Notes to Consolidated Financial Statements</u> | 81 |

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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 sheets of Great Wolf Resorts, Inc. (a Delaware Corporation) and subsidiaries (the Company) as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2011. 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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great Wolf Resorts, Inc. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We also have 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, 2011, 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 February 23, 2012, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP

Milwaukee, Wisconsin
February 23, 2012

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

(dollars in thousands, except per share data)

| | December 31, | |
|--|-------------------|-------------------|
| | 2011 | 2010 |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 33,767 | \$ 36,988 |
| Escrows | 2,618 | 1,283 |
| Accounts receivable, net of allowance for doubtful accounts of \$5 and \$13 | 3,660 | 3,278 |
| Accounts receivable affiliates | 3,243 | 3,764 |
| Inventory | 7,570 | 6,871 |
| Other current assets | 7,167 | 4,619 |
| Total current assets | 58,025 | 56,803 |
| Property and equipment, net | 576,262 | 623,958 |
| Investment in and advances to affiliates | 24,311 | 25,131 |
| Other assets | 26,049 | 38,649 |
| Intangible assets | 26,675 | 26,697 |
| Total assets | \$ 711,322 | \$ 771,238 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Current portion of long-term debt | \$ 67,678 | \$ 70,083 |
| Accounts payable | 5,301 | 8,499 |
| Accounts payable affiliates | 27 | 4 |
| Accrued expenses | 32,223 | 28,519 |
| Advance deposits | 7,715 | 7,472 |
| Other current liabilities | 7,529 | 7,416 |
| Total current liabilities | 120,473 | 121,993 |
| Mortgage debt | 366,951 | 390,289 |
| Other long-term debt | 80,545 | 91,926 |
| Deferred compensation liability | 1,502 | 1,260 |
| Total liabilities | 569,471 | 605,468 |
| Commitments and contingencies | | |
| Great Wolf Resorts stockholders equity: | | |
| Common stock, \$0.01 par value, 250,000,000 shares authorized, 32,470,524 and 32,339,125 shares issued and outstanding at December 31, 2011 and 2010 | 325 | 323 |
| Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding at December 31, 2011 and 2010 | | |
| Additional paid-in capital | 404,714 | 402,952 |
| Accumulated deficit | (262,959) | (237,296) |
| Deferred compensation | (200) | (200) |
| Total Great Wolf Resorts stockholders equity | 141,880 | 165,779 |
| Noncontrolling interest | (29) | (9) |
| Total equity | 141,851 | 165,770 |

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| | | |
|--|------------|------------|
| Total liabilities and stockholders' equity | \$ 711,322 | \$ 771,238 |
|--|------------|------------|

See accompanying notes to consolidated financial statements.

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF OPERATIONS**

(dollars in thousands, except per share data)

| | Year Ended December 31, | | |
|---|-------------------------|-----------------|-----------------|
| | 2011 | 2010 | 2009 |
| Revenues: | | | |
| Rooms | \$ 174,325 | \$ 158,985 | \$ 150,565 |
| Food and beverage | 46,507 | 44,434 | 41,233 |
| Other | 45,910 | 43,229 | 36,180 |
| Management and other fees | 2,812 | 2,646 | 1,990 |
| Management and other fees affiliates | 4,981 | 4,594 | 4,973 |
| | 274,535 | 253,888 | 234,941 |
| Other revenue from managed properties | 11,315 | 11,083 | 4,166 |
| Other revenue from managed properties affiliates | 10,858 | 10,989 | 17,132 |
| Total revenues | 296,708 | 275,960 | 256,239 |
| Operating expenses by department: | | | |
| Rooms | 25,069 | 23,106 | 21,405 |
| Food and beverage | 35,492 | 33,172 | 31,882 |
| Other | 37,463 | 33,934 | 30,575 |
| Other operating expenses: | | | |
| Selling, general and administrative | 64,332 | 65,075 | 58,731 |
| Property operating costs | 35,373 | 33,004 | 36,212 |
| Depreciation and amortization | 53,723 | 58,318 | 53,369 |
| Asset impairment loss | | 18,741 | |
| Loss on disposition of assets | 1,513 | 19 | 255 |
| | 252,965 | 265,369 | 232,429 |
| Other expenses from managed properties | 11,315 | 11,083 | 4,166 |
| Other expenses from managed properties affiliates | 10,858 | 10,989 | 17,132 |
| Total operating expenses | 275,138 | 287,441 | 253,727 |
| Net operating income (loss) | 21,570 | (11,481) | 2,512 |
| Gain on sale of unconsolidated affiliate | | | (962) |
| Investment income affiliates | (902) | (1,088) | (1,330) |
| Interest income | (210) | (543) | (637) |
| Interest expense | 47,902 | 45,540 | 33,304 |
| Loss from continuing operations before income taxes and equity in unconsolidated affiliates | (25,220) | (55,390) | (27,863) |
| Income tax expense (benefit) | 7,086 | (5,403) | 220 |
| Equity in unconsolidated affiliates, net of tax | 18 | 576 | 2,435 |
| Net loss from continuing operations | (32,324) | (50,563) | (30,518) |
| Discontinued operations, net of tax | (6,634) | 455 | 27,958 |
| Net loss | (25,690) | (51,018) | (58,476) |

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| | | | |
|--|-------------|-------------|-------------|
| Net income attributable to noncontrolling interest, net of tax | (27) | (9) | |
| Net loss attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (51,009) | \$ (58,476) |
| Loss per share of common stock basic and diluted: | | | |
| Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax | \$ (1.03) | \$ (1.63) | \$ (0.99) |
| Income (loss) from discontinued operations, net of tax | 0.21 | (0.02) | (0.91) |
| Basic and diluted loss per common share | \$ (0.82) | \$ (1.65) | \$ (1.90) |
| Weighted average common shares outstanding: | | | |
| Basic | 31,332,325 | 30,987,818 | 30,749,318 |
| Diluted | 31,332,325 | 30,987,818 | 30,749,318 |

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)

| | Common Shares | Common Stock | Additional Paid- in Capital | Accumulated Deficit | Deferred Compensation | Noncontrolling Interest | Total Equity |
|--|------------------|-----------------|-----------------------------------|------------------------|--------------------------|----------------------------|-----------------|
| Balance, January 1, 2009 | 30,982,646 | \$ 310 | \$ 399,641 | \$ (127,811) | \$ (200) | \$ | \$ 271,940 |
| Issuance of equity shares under the stock-based compensation plan | 296,243 | 3 | | | | | 3 |
| Stock-based compensation | | | 1,289 | | | | 1,289 |
| Net loss attributable to Great Wolf Resorts, Inc. | | | | (58,476) | | | (58,476) |
| Balance, December 31, 2009 | 31,278,889 | 313 | 400,930 | (186,287) | (200) | | 214,756 |
| Issuance of equity shares under the stock-based compensation plan | 1,060,236 | 10 | | | | | 10 |
| Stock-based compensation | | | 2,022 | | | | 2,022 |
| Net loss | | | | (51,009) | | (9) | (51,018) |
| Balance, December 31, 2010 | 32,339,125 | 323 | 402,952 | (237,296) | (200) | (9) | 165,770 |
| Issuance of equity shares under the stock-based compensation plan | 131,399 | 2 | | | | | 2 |
| Stock-based compensation | | | 1,762 | | | | 1,762 |
| Other | | | | | | 7 | 7 |
| Net loss | | | | (25,663) | | (27) | (25,690) |
| Balance, December 31, 2011 | 32,470,524 | \$ 325 | \$ 404,714 | \$ (262,959) | \$ (200) | \$ (29) | \$ 141,851 |

See accompanying notes to consolidated financial statements.

Table of Contents**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(dollars in thousands)

| | Year Ended December 31, | | |
|---|-------------------------|-------------|-------------|
| | 2011 | 2010 | 2009 |
| Operating activities: | | | |
| Net loss | \$ (25,690) | \$ (51,018) | \$ (58,476) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | | |
| Depreciation and amortization | 53,823 | 58,467 | 56,378 |
| Bad debt expense | 29 | 226 | 680 |
| Asset impairment loss | | 18,741 | 24,000 |
| Non-cash employee compensation and professional fees expense | 2,252 | 2,664 | 1,138 |
| Loss on disposition of assets | 1,513 | 18 | 255 |
| Gain on disposition of property included in discontinued operations | (6,667) | | |
| Gain on sale of unconsolidated affiliate | | | (962) |
| Equity in losses of unconsolidated affiliates | 13 | 639 | 2,416 |
| Deferred tax expense (benefit) | 6,167 | (6,408) | 131 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable and other assets | (1,520) | (1,138) | (8,865) |
| Accounts payable, accrued expenses and other liabilities | (1,052) | 6,921 | (4,480) |
| Net cash provided by operating activities | 28,868 | 29,112 | 12,215 |
| Investing activities: | | | |
| Capital expenditures for property and equipment | (9,323) | (8,683) | (49,258) |
| Loan repayment from unconsolidated affiliate | 807 | 1,715 | 9,225 |
| Investment in unconsolidated affiliates | | | (303) |
| Proceeds from sale of interest in unconsolidated affiliate | | | 6,000 |
| Investment in development | (422) | (517) | 834 |
| Proceeds from the sale of a discontinued operation | 4,200 | | |
| Proceeds from sale of assets | 2 | 19 | 66 |
| Cash acquired in acquisition of Creative Kingdoms, LLC | | 324 | |
| (Increase) decrease in restricted cash | (277) | 2,664 | (3,223) |
| Net cash used in investing activities | (5,013) | (4,478) | (36,659) |
| Financing activities: | | | |
| Principal payments on long-term debt | (81,561) | (217,110) | (8,031) |
| Proceeds from issuance of long-term debt | 56,000 | 219,337 | 51,051 |
| Payment of loan costs | (1,515) | (10,786) | (11,894) |
| Net cash (used in) provided by financing activities | (27,076) | (8,559) | 31,126 |
| Net increase (decrease) in cash and cash equivalents | (3,221) | 16,075 | 6,682 |
| Cash and cash equivalents, beginning of year | 36,988 | 20,913 | 14,231 |
| Cash and cash equivalents, end of year | \$ 33,767 | \$ 36,988 | \$ 20,913 |
| Supplemental cash flow information: | | | |
| Cash paid for interest, net of capitalized interest | \$ 48,502 | \$ 40,904 | \$ 33,458 |

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| | | | |
|---|----------|----------|--------|
| Cash paid for income taxes, net of refunds | \$ 702 | \$ 549 | \$ 411 |
| Non-cash items: | | | |
| Construction in process accruals | \$ | \$ | \$ 20 |
| Loan cost accruals | \$ | \$ 679 | \$ |
| Conversion of note receivable and accrued interest to equity investment | \$ | \$ 9,963 | \$ |
| Transfer of fixed assets to inventory | \$ 1,883 | \$ | \$ |

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 and its consolidated subsidiaries.

Business Summary

We are a family entertainment resort company that provides our guests with a high quality vacation at an affordable price. We are the largest owner, licensor, operator and developer in North America of drive-to destination family resorts featuring indoor waterparks and other family-oriented entertainment activities based on the number of resorts in operation. Each of our resorts feature approximately 300 to 600 family suites, each of which sleeps from six to ten people and includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our primary 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. Several of our resorts have significant meeting space or conference centers, allowing us to also attract groups in addition to our leisure guests. Our resorts are open year-round and provide a consistent, comfortable environment where our guests can enjoy our various amenities and activities. We operate and license resorts under our Great Wolf Lodge® brand name. We own and operate several of the resorts in our portfolio; we have also entered into licensing and management arrangements with third parties relating to the operation of resorts under the Great Wolf Lodge brand name.

We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms (which includes admission to our indoor waterpark), and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, ice cream shop and confectionery, full-service adult spa, kid spa, game arcade, gift shop, miniature golf, interactive game attraction, family tech center and meeting space. We also generate revenues from licensing fees, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

The following table presents an overview of our portfolio of resorts. As of December 31, 2011, we operated, managed and/or were party to licensing arrangements relating to the operation of 11 Great Wolf Lodge resorts (our signature Northwoods-themed resorts). We anticipate that most of our future resorts will be licensed and/or developed under our Great Wolf Lodge brand, but we may operate and/or enter into licensing arrangements with other resorts using different brands in appropriate markets.

| | Ownership Percentage | Opened | Number of Guest Suites | Indoor Entertainment Area(1) (Approx. sq. ft) |
|-------------------------|-------------------------|--------|------------------------------|--|
| Wisconsin Dells, WI(3) | | 1997 | 385(2) | 102,000 |
| Sandusky, OH(3) | | 2001 | 271 | 41,000 |
| Traverse City, MI | 100% | 2003 | 280 | 57,000 |
| Kansas City, KS | 100% | 2003 | 281 | 57,000 |
| Williamsburg, VA(4) | 100% | 2005 | 405 | 87,000 |
| Pocono Mountains, PA(4) | 100% | 2005 | 401 | 101,000 |
| Niagara Falls, ONT(5) | | 2006 | 406 | 104,000 |
| Mason, OH(4) | 100% | 2006 | 401 | 105,000 |
| Grapevine, TX(4) | 100% | 2007 | 605 | 110,000 |
| Grand Mound, WA(6) | 49% | 2008 | 398 | 74,000 |
| Concord, NC(4) | 100% | 2009 | 402 | 97,000 |

(1)

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

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- (2) Total number of guest suites includes 77 condominium units that are individually owned by third parties and managed by us.
- (3) These properties are owned by CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties. We currently manage both properties and license the Great Wolf Lodge brand to these resorts.
- (4) Five of our properties (Great Wolf Lodge resorts in Williamsburg, VA; Pocono Mountains, PA; Mason, OH; Grapevine, TX and Concord, NC) each had a book value of fixed assets equal to ten percent or more of our total assets as of December 31, 2011 and each had total revenues equal to ten percent or more of our total revenues for the year ended December 31, 2011.
- (5) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016.
- (6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We manage 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 the United States Department of the Interior, which is trustee for Chehalis.

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.

Reclassifications Certain 2010 and 2009 amounts have been reclassified to conform to the 2011 presentation.

As a result of the sale of our Blue Harbor Resorts, we have included that resort's operations in discontinued operations in our consolidated statement of operations; and

On our consolidated statements of cash flows, we have reclassified the change in escrows to present them as a part of the change in restricted cash, where before we presented that change in escrows as a separate line item.

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, cash that is held by a loan servicer under a lock-box arrangement, 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, 2011, 2010, and 2009 was \$29, \$226, and \$680, respectively. Writeoffs of accounts receivable for the years ended December 31, 2011, 2010, and 2009 were \$21, \$138, and \$1,894, respectively.

Inventory Inventories are comprised primarily of retail and food and beverage inventories and are recorded at the lower of cost or 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 | 3-15 years |

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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. We had no capitalized interest for the years ended December 31, 2011 and 2010.

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 \$10,305 and \$14,014 as of December 31, 2011 and 2010, respectively. Amortization of loan fees was \$5,193, \$8,443, and \$6,684 for the years ended December 31, 2011, 2010, and 2009, respectively. Included in loan fee amortization for the years ended December 31, 2011 and 2010 were approximately \$1,850 and \$3,500, respectively, of loan fees that were written off due to repayments of related debt. We had no similar write offs for the year ended December 31, 2009.

Acquisition Accounting We follow acquisition accounting for all acquisitions that meet the business combination definition. Acquisition accounting requires us to measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest at the acquisition-date fair value. While we use our best estimates and assumptions as part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of operation.

Partially-Owned Entities 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. We record profits and losses from our partially-owned entities according to the terms of the operating agreements.

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.

Intangible Assets Our intangible assets consist mainly of the value of our Great Wolf Lodge brand name. The brand name intangible asset has an indefinite useful life. We do not amortize the brand name intangible, but instead test it for possible impairment at least annually or when circumstances warrant by comparing the fair value of the intangible asset with its carrying amount. Our assessment was performed as of December 31, 2011 and 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.

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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. 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 unit's fair values using a discounted cash flow model.

In connection with the acquisition of the majority interest in Creative Kingdoms, LLC (CK) in 2010 we recorded \$2,276 of goodwill. In the fourth quarter of 2010, we reduced the amount of goodwill by \$910 when we established a deferred tax asset as a result of the difference between the total estimated fair values and the tax bases of the assets acquired from CK. Goodwill is included within intangible assets on our consolidated balance sheet.

| | 2011 | 2010 |
|--|----------|----------|
| Balance as of January 1 | | |
| Goodwill | \$ 1,366 | \$ |
| Goodwill related to the acquisition of the majority interest in CK | | 1,366 |
| Balance as of December 31 | \$ 1,366 | \$ 1,366 |

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.

During the year ended December 31, 2010, we recorded \$18,741 of impairment charges related to our Traverse City and Kansas City resorts. We determined the carrying values of these resorts were impaired in light of the reduced estimated hold periods for the resorts. Because of the reduced estimated hold periods, we performed recoverability tests of these resorts to determine if further assessment for potential impairment was required. Based on this analysis of undiscounted cash flows, we determined the carrying value of these resorts were not recoverable. As a result, we recorded an \$18,741 impairment charge to decrease the resorts' carrying value to their estimated fair value (net of estimated disposal costs) as of December 31, 2010. We estimated the properties' fair values by using available market information for similar assets, as well as considering estimated future cash flows, terminal values based on the projected cash flows and capitalization rates in the range of what is reported in industry publications for operationally similar assets and other available market information. The cash flows considered in estimating the fair values were discounted using market-based discounts generally used for operationally and geographically similar assets. The impairment charge is included in our Resort Ownership/Operation segment.

Because of triggering events that occurred in the three months ended September 30, 2009, related to our resort in Sheboygan, including changes in the expectation of how long we will hold this property, current period and historical operating losses and the deterioration in the current market conditions, we performed a recoverability test of this resort to determine if further assessment for potential impairment was required. Based on this analysis of undiscounted cash flows, we determined the carrying value of this resort was not recoverable. As a result, we recorded a \$24,000 impairment charge to decrease the resort's carrying value to its estimated fair value (net of estimated disposal costs) as of September 30, 2009. To determine the estimated fair value for purposes of calculating the impairment charge, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets. Although we believe our

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estimated fair value for the resort is reasonable, the actual fair value we ultimately realize from this resort could differ materially from this estimate. The impairment charge is included in our Resort Ownership/Operation segment.

Revenue Recognition We earn revenues from our resort operations and management of resorts and other related services. We recognize revenue from rooms, food and beverage, and other operating departments at the resorts and from product sales, admission fees and retail revenues from our subsidiary that is the developer of experiential gaming products, 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, license and other 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.

Other Revenue and Other Expenses From Managed Properties We employ the staff at our managed properties. Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the staff we employ at the managed properties. 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.

Noncontrolling Interests We record the non-owned equity interests of our consolidated subsidiaries as a separate component of our consolidated equity on our consolidated balance sheet. The net earnings attributable to the controlling and noncontrolling interests are included on the face of our statement of operations. Due to our acquisition of CK in June 2010 we have a consolidated subsidiary with a noncontrolling interest as of December 31, 2011.

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 statement 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 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 not be able to realize our deferred tax assets, we would establish a valuation allowance, which would increase the provision for income taxes. Conversely, 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.

As of December 31, 2011 and 2010, we recorded valuation allowances of \$48,965 and \$35,564, respectively, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire. The valuation allowance we recorded is based on our estimates of taxable income solely from the reversal of existing deferred tax liabilities and the period over which deferred tax assets reverse. In the event that actual results differ from these estimates or we adjust these estimates in a future period, we may need to increase or decrease our valuation allowance, which could materially impact our consolidated statement of operations.

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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.

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 initial public offering (IPO) in 2004 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 excluding non-vested shares. Our diluted earnings per common share assumes the issuance of common stock for all potentially dilutive stock equivalents outstanding using the treasury stock method. In periods in which we incur a net loss, we exclude potentially dilutive stock equivalents from the computation of diluted weighted average shares outstanding, as the effect of those potentially dilutive items is anti-dilutive.

Derivatives 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 based on the fair value of the award at the date of grant over the requisite service period.

Advertising Advertising costs are expensed as incurred. Advertising expense for the years ended December 31, 2011, 2010, and 2009 was \$16,885, \$17,982, and \$19,231, respectively.

Segments We are organized into a single operating division. Within that operating division, we have two reportable segments:

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

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

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The following summarizes significant financial information regarding our segments:

| | Resort Ownership/ Operation | Resort Third- Party Management/ Licensing | Other | Totals per Financial Statements |
|---|--|--|--------------|--|
| Year Ended December 31, 2011 | | | | |
| Revenues | \$ 260,585 | \$ 29,966 | \$ 6,157 | \$ 296,708 |
| Depreciation and amortization | (50,561) | | (3,162) | \$ (53,723) |
| Net operating income (loss) | 18,300 | 7,793 | (4,523) | \$ 21,570 |
| Investment income affiliates | | | | (902) |
| Interest income | | | | (210) |
| Interest expense | | | | 47,902 |
| Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates | | | | \$ (25,220) |
| Additions to long-lived assets | 8,919 | | 404 | \$ 9,323 |
| Total assets | 599,463 | 1,725 | 110,134 | \$ 711,322 |

| | Resort Ownership/ Operation | Resort Third- Party Management/ Licensing | Other | Totals per Financial Statements |
|---|--|--|--------------|--|
| Year Ended December 31, 2010 | | | | |
| Revenues | \$ 240,346 | \$ 29,312 | \$ 6,302 | \$ 275,960 |
| Depreciation and amortization | (55,440) | | (2,878) | \$ (58,318) |
| Asset impairment loss | (18,741) | | | \$ (18,741) |
| Net operating (loss) income | (14,819) | 7,240 | (3,902) | \$ (11,481) |
| Investment income affiliates | | | | (1,088) |
| Interest income | | | | (543) |
| Interest expense | | | | 45,540 |
| Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates | | | | \$ (55,390) |
| Additions to long-lived assets | 7,463 | | 1,220 | \$ 8,683 |
| Total assets | 646,578 | 1,778 | 122,882 | \$ 771,238 |

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| | Resort Ownership/ Operation | Resort Third- Party Management/ Licensing | Other | Totals per Financial Statements |
|---|--|--|--------------|--|
| Year Ended December 31, 2009 | | | | |
| Revenues | \$ 227,978 | \$ 28,261 | \$ | \$ 256,239 |
| Depreciation and amortization | (52,587) | | (782) | \$ (53,369) |
| Net operating (loss) income | (862) | 6,963 | (3,589) | \$ 2,512 |
| Gain on sale of unconsolidated affiliate | | | (962) | (962) |
| Investment income affiliates | | | | (1,330) |
| Interest income | | | | (637) |
| Interest expense | | | | 33,304 |
| Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates | | | | \$ (27,863) |
| Additions to long-lived assets | 48,768 | | 490 | \$ 49,258 |
| Total assets | 707,472 | 2,942 | 95,330 | \$ 805,744 |

The Other items in the table above includes items that do not constitute a reportable segment and represent corporate-level activities and the activities of other operations not included in Resort Ownership/Operation or Resort Third-Party Management/License segments. 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 and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncements In December 2010, the FASB issued guidance which (1) does not prescribe a specific method of calculating the carrying value of a reporting unit in the performance of step 1 of the goodwill impairment test and (2) requires entities with a zero or negative carrying value to assess, considering certain qualitative factors, whether it is more likely than not that a goodwill impairment exists. If an entity concludes that it is more likely than not that a goodwill impairment exists, the entity must perform step 2 of the goodwill impairment test. This guidance will be effective for impairment tests performed during fiscal years (and interim periods within those years) that begin after December 15, 2010. The adoption of this guidance did not have a material impact on our consolidated financial statements.

In May 2011, the FASB issued guidance that clarifies and changes the application of various fair value measurement principles and disclosure requirements. This guidance is effective for interim and annual periods beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

In September 2011, the FASB issued guidance that permits an entity an option to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If an entity believes, as a result of its qualitative assessment, that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further impairment testing is required. The guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements.

Table of Contents**3. INVESTMENT IN AFFILIATES*****CNL Joint Venture***

In August 2009, we sold our 30.26% joint venture interest to CNL for \$6,000. We recognized a \$962 gain on this sale.

Summary financial data for this joint venture is as follows:

| | Period January 1 through August 5, 2009 |
|------------------------|---|
| Operating data: | |
| Revenue | \$ 19,750 |
| Operating expenses | \$ (24,213) |
| Net loss | \$ (4,463) |

Grand Mound Joint Venture

Our unconsolidated joint venture (refer to Note 4) with The Confederated Tribes of the Chehalis Reservation owns the Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This joint venture is a limited liability company. We are a member of that limited liability company with a 49% ownership interest. At December 31, 2011, the joint venture had aggregate outstanding indebtedness to third parties of \$95,270. Neither joint venture partner guarantees the third party debt in the years presented. As of December 31, 2011 and 2010, we have made combined loan and equity contributions, net of loan repayments, of \$27,179 and \$27,985, respectively, to the joint venture to fund a portion of construction costs of the resort. In January 2009, the other member of the joint venture purchased \$5,991 of our loan at par. Included in our combined loan and equity contributions, net of loan repayments, of \$27,985 at December 31, 2010, was a subordinated loan amount, net of loan repayments, of \$806. There was no similar amount at December 31, 2011, as the loan was fully repaid in 2011.

Summary financial data for this joint venture as of and for the years ended December 31, 2011 and 2010 is as follows:

Summarized Operating Data

| | 2011 | 2010 |
|--|-----------|------------|
| Revenue | \$ 42,562 | \$ 41,669 |
| Operating expenses | 30,127 | 30,154 |
| Depreciation and amortization expense | 7,686 | 7,553 |
| Interest expense | 2,816 | 3,300 |
| Interest income | (7) | (2) |
| Net income | 1,940 | 664 |
| Distributions to preferred capital holders | 1,760 | 1,760 |
| Net income (loss) applicable to members | \$ 180 | \$ (1,096) |
| Income (loss) allocable to other joint venture partner | \$ 92 | \$ (559) |
| Income (loss) allocable to Great Wolf Resorts, Inc. | \$ 88 | \$ (537) |
| Amortization of capitalized cost | \$ (101) | \$ (102) |
| Equity in unconsolidated entities | \$ (13) | \$ (639) |

Table of Contents**Summarized Balance Sheet Data**

| | 2011 | 2010 |
|-----------------------------------|------------|------------|
| Property and equipment, net | \$ 129,073 | \$ 135,671 |
| Other assets | 4,753 | 4,122 |
| Current portion of long-term debt | 95,270 | 2,915 |
| Long-term debt related party | | 1,646 |
| Long-term debt | | 95,297 |
| Other liabilities | 8,354 | 9,913 |
| Members' equity | 30,202 | 30,022 |

We had a receivable from the joint venture of \$3,243 and \$3,764 that relates primarily to accrued preferred equity returns and management fees as of December 31, 2011 and 2010, respectively. We had a payable to the joint venture of \$27 and \$4 as of December 31, 2011 and 2010, respectively. The amount of investment income and management fee income recorded by us is included in the Investment income affiliates and Management and other fees affiliates line items, respectively, on our consolidated statements of operations.

4. VARIABLE INTEREST ENTITIES

A legal entity is referred to as a variable interest entity, if, by design (1) the total equity investment at risk is not sufficient to permit the legal entity to finance its activities without additional subordinated financial support from other parties, or (2) the entity has equity investors that cannot make significant decisions about the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. A variable interest entity must be consolidated if it is determined that we have both the (1) power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance and (2) obligation to absorb losses or the right to receive benefits of the variable interest entity that could potentially be significant to the variable interest entity.

In accordance with the guidance for the consolidation of variable interest entities, we analyze our variable interests, including equity investments and management agreements, to determine if an entity in which we have a variable interest, is a variable interest entity and whether we must consolidate that variable interest entity. Our analysis includes both quantitative and qualitative reviews. We base our quantitative analysis on the forecasted cash flows of the entity, and our qualitative analysis on a consideration of all facts and circumstances including, but not limited to, our role in establishing the variable interest entity, our ongoing rights and responsibilities, the organization structure, and relevant financial and other agreements.

We have equity investments in the joint venture that owns the Great Wolf Lodge resort in Grand Mound, Washington as described in Note 3. We manage that resort and we have concluded that the joint venture is a variable interest entity due to the management contract that provides us with certain rights. However, we have concluded that we are not the primary beneficiary because the majority equity owner has substantive participating rights over the activities that most significantly impact the economic performance of the joint venture. As a result, we have concluded that power is shared between us and the other equity investor. As we share power with the majority equity owner, we are not the primary beneficiary of the joint venture and, therefore, we do not consolidate this entity as of December 31, 2011 or December 31, 2010. During the years ended December 31, 2011 and 2010, we did not provide any support to this entity that we were not contractually obligated to do so. Our maximum exposure to loss related to our involvement with this entity as of December 31, 2011 and 2010 is limited to the carrying value of our equity investments in the joint venture and receivables as of that date. Our exposure is limited because of the non-recourse nature of the borrowings of the joint venture. The total carrying values of those items on our balance sheet as of December 31, 2011 and 2010 is \$27,554 and \$28,895, respectively, and are included in the accounts receivable affiliates and investments in and advances to affiliates line items on our consolidated balance sheet. Included in our carrying value of \$28,895 at December 31, 2010, there was a subordinated loan amount of \$806. There was no similar amount at December 31, 2011, as the loan was fully repaid in 2011.

Table of Contents**5. ACQUISITION OF CREATIVE KINGDOMS**

In June 2010, we acquired a 62.4% equity interest in Creative Kingdoms (CK) in exchange for all of the convertible indebtedness owed to us by CK. CK is a developer of experiential gaming products including MagiQuest®, an interactive game attraction available at ten of our resorts. CK also owns or has sold to other parties several stand-alone MagiQuest facilities or similar attractions.

We have consolidated CK as we have a majority ownership interest in CK. We accounted for this business combination using the acquisition method of accounting, which requires us to measure the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest at the acquisition-date fair value. We have recorded the identifiable assets acquired, the liabilities assumed and the noncontrolling interest at amounts that approximate fair value. We have recorded \$1,366 of goodwill, which represents the excess of (a) the consideration transferred and the fair value of any noncontrolling interest in the acquiree over (b) the net of the acquisition date fair values of the assets acquired and the liabilities assumed, less amounts established as a deferred tax asset.

6. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

| | December 31, | |
|-----------------------------------|--------------|------------|
| | 2011 | 2010 |
| Land and improvements | \$ 57,665 | \$ 57,665 |
| Building and improvements | 417,385 | 420,316 |
| Furniture, fixtures and equipment | 344,825 | 341,741 |
| Construction in process | 142 | 623 |
| | 820,017 | 820,345 |
| Less accumulated depreciation | (243,755) | (196,387) |
| Property and equipment, net | \$ 576,262 | \$ 623,958 |

Depreciation expense from continuing operations was \$48,254, \$49,449, and \$47,182 for the years ended December 31, 2011, 2010 and 2009, respectively.

7. LONG-TERM DEBT

Long-term debt consists of the following:

| | December 31, | |
|---|--------------|-----------|
| | 2011 | 2010 |
| Mortgage Debt: | | |
| Traverse City/Kansas City mortgage loan | \$ 65,591 | \$ 67,236 |
| Pocono Mountains mortgage loan | 93,015 | 94,274 |
| Concord mortgage loan | 54,055 | 78,147 |
| First mortgage notes (net of discount of \$8,046 and \$9,578) | 221,954 | 220,422 |
| Other Long-Term Debt: | | |
| Junior subordinated debentures | 80,545 | 80,545 |
| City of Sheboygan bonds | | 8,573 |
| City of Sheboygan loan | | 3,054 |
| Other | 14 | 47 |
| | 515,174 | 552,298 |
| Less current portion of long-term debt | (67,678) | (70,083) |

| | | |
|----------------------|------------|------------|
| Total long-term debt | \$ 447,496 | \$ 482,215 |
|----------------------|------------|------------|

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Traverse City/Kansas City Mortgage Loan This non-recourse 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, 2011.

While recourse under the loan is limited to the property owner's interest in the mortgaged property, we have provided limited guarantees with respect to certain customary non-recourse provisions and environmental indemnities relating to the loan.

The loan also contains limitations on our ability, without lender's consent, to (i) make payments to our affiliates if a default exists; (ii) enter into transactions with our affiliates; (iii) make loans or advances; or (iv) assume, guarantee or become liable in connection with any other obligations.

The loan requires us to maintain a minimum debt service coverage ratio (DSCR) of 1.35, calculated on a quarterly basis. This ratio is defined as the two collateral properties' combined trailing twelve-month net operating income divided by the greater of (i) the loan's twelve-month debt service requirements and (ii) 8.5% of the amount of the outstanding principal indebtedness under the loan. Failure to meet the minimum DSCR is not an event of default and does not accelerate the due date of the loan. Not meeting the minimum DSCR, however, subjects the two properties to a lock-box cash management arrangement, at the discretion of the loan's servicer. The loan also contains a similar lock-box requirement if we open any Great Wolf Lodge or Blue Harbor Resort within 100 miles of either resort, and the two collateral properties combined trailing twelve-month net operating income is not at least equal to 1.8 times 8.5% of the amount of the outstanding principal indebtedness under the loan. For the year ended December 31 2011, the DSCR for this loan was 1.16, and the DSCR for this loan has been below 1.35 since the second quarter of 2007.

In September 2010, the loan's master servicer implemented a lock-box cash management arrangement. The lock-box cash management arrangement requires substantially all cash receipts for the two resorts to be moved each day to a lender-controlled bank account, which the loan servicer then uses to fund debt service and operating expenses for the two resorts on a monthly basis, with excess cash flow being deposited in a reserve account and held as additional collateral for the loan. We believe that this arrangement constitutes a traditional lock-box arrangement as discussed in authoritative accounting guidance. Based on that guidance, we have classified the entire outstanding principal balance of the loan as a current liability as of December 31, 2011, since the lock-box arrangement requires us to use the properties' working capital to service the loan, and we do not presently have the ability to refinance this loan to a new, long-term loan. Although the entire principal balance of the loan is classified as a current liability as of December 31, 2011, the loan is not in default, and the principal balance is not due currently.

At our request, in October 2010 the loan was transferred to its special servicer. We informed the special servicer that, given the current and expected performance at that time of the two properties securing this loan, we might elect to cease the subsidization of debt service on this non-recourse loan. If we were to elect to cease the subsidization of debt service, that may result in a default under the loan agreement. We believe the combined market value of the two properties securing this loan is now significantly less than the principal amount of the loan. The properties had a combined net book value of \$37,758 as of December 31, 2011, which includes the effect of an impairment charge we recorded in 2010 to adjust the carrying value of the properties to their estimated fair value, and the amount of debt outstanding under the loan was \$65,591 as of December 31, 2011.

Through March 2011, we worked with the special servicer to discuss a potential modification of this loan. Those discussions proved unsuccessful and the special servicer has transferred the loan back to the master servicer, where the lock-box arrangement as described above remains in place.

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Given improved operating trends and performance at the properties during 2011, we currently expect the properties to generate sufficient cash flow so that our subsidization of debt service, if any, for 2012 will be insignificant to our overall operations. As a result, we currently believe the most likely course of action for 2012 is to continue to operate these properties, assuming these trends continue.

Pocono Mountains Mortgage Loan This loan is secured by a mortgage on our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in January 2017. 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, 2011.

The loan requires us to maintain a minimum DSCR of 1.25, calculated on a quarterly basis. Subject to certain exceptions, the DSCR is increased to 1.35 if we open up a waterpark resort within 75 miles of the property or incur mezzanine debt secured by the resort. This ratio is defined as the property's combined trailing twelve-month net operating income divided by the greater of (i) the loan's twelve-month debt service requirements and (ii) 7.25% of the amount of the outstanding principal indebtedness under the loan. Failure to meet the minimum DSCR is not an event of default and does not accelerate the due date of the loan. Not meeting the minimum DSCR, however, subjects the property to a lock-box cash management arrangement, at the discretion of the loan's servicer. We believe that lock-box arrangement would require substantially all cash receipts for the resort to be moved each day to a lender-controlled bank account, which the loan servicer would then use to fund debt service and operating expenses for the resort, with excess cash flow being deposited in a reserve account and held as additional collateral for the loan. While recourse under the loan is limited to the property owner's interest in the mortgage property, we have provided limited guarantees with respect to certain customary non-recourse provisions and environmental indemnities relating to the loan.

The loan also contains limitations on our ability, without lender's consent, to (i) make payments to our affiliates if a default exists; (ii) enter into transactions with our affiliates; (iii) make loans or advances; or (iv) assume, guarantee or become liable in connection with any other obligations.

Concord Mortgage Loan On July 15, 2011, we entered into a loan agreement to refinance our Concord mortgage loan. We repaid \$20,433 under the original loan using cash on hand. The principal amount of the new loan was \$56,000 and is secured by our Concord resort. This loan bears interest at a floating rate of 30-day LIBOR plus a spread of 500 basis points with a minimum rate of 6.00% per annum (effective rate of 6.00% at December 31, 2011). This loan matures in July 2014 and has a one-year extension available at our option, assuming the property meets certain operating performance thresholds. This loan requires four quarterly principal payments of \$125 each beginning October 1, 2011, and quarterly principal payments of \$375 thereafter.

As part of the loan agreement, the lender requires excess cash from the Concord resort to be swept to the lender on a monthly basis. The lender will hold the excess cash until the end of each quarter and then will either fund the cash back to us to cover any projected cash shortfalls at the property or if there are no shortfalls projected, use the excess cash to repay the loan principal balance. The lender has a \$25,000 loan principal guarantee from Great Wolf Resorts. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at December 31, 2011.

In connection with the refinancing transaction, we were required to provide interest rate protection on a portion of the loan amount through the loan's maturity date. Therefore, we executed an interest rate cap that caps the loan at 8.00% interest rate through July 2014 at a cost of \$274. The interest rate cap was designated as an ineffective cash flow hedge. We mark the interest rate cap to market and record the change to interest expense. Also in connection with the refinance transaction, we wrote-off approximately \$1,850 of unamortized debt issuance costs.

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First Mortgage Notes In April 2010, we completed a private placement of \$230,000 in aggregate principal amount of our 10.875% first mortgage notes (the Notes) due April 2017. The Notes were sold at a discount that provides an effective yield of 11.875% before transaction costs. We are amortizing the discount over the life of the Notes using the straight-line method, which approximates the effective interest method. The proceeds of the Notes were used to retire the outstanding mortgage debt on our Mason, Williamsburg, and Grapevine properties and for general corporate purposes.

The Notes are senior obligations of GWR Operating Partnership, LLLP and Great Wolf Finance Corp (Issuers). The Notes are guaranteed by Great Wolf Resorts and by our subsidiaries that own three of our resorts and those guarantees are secured by first priority mortgages on those three resorts. The Notes are also guaranteed by certain of our other subsidiaries on a senior unsecured basis.

The Notes require that we satisfy certain tests in order to, among other things: (i) incur additional indebtedness; (ii) make distributions from GWR Operating Partnership, L.L.L.P. to Great Wolf Resorts, Inc.; (iii) repurchase the equity interests in GWR Operating Partnership, L.L.L.P. or to prepay the subordinated debt of GWR Operating Partnership, L.L.L.P. or its subsidiaries; (iv) make investments, (v) enter into affiliate transactions, (vi) sell assets other than in the ordinary course of business or (vii) merge. We are currently restricted from these activities with certain carve-outs, as provided in the indenture.

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 \$1,550 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 junior subordinated debentures with payment terms that mirror the distribution terms of the TPS. The indenture governing the debentures contains limitations on our ability, without the consent of the holders of the debentures, to make payments to our affiliates or for our affiliates to make payments to us if a default exists. 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 debentures 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 July 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 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 these debentures 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.

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 sheets. For financial reporting purposes, we record interest expense on the corresponding notes in our condensed consolidated statements of operations.

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City of Sheboygan Bonds The City of Sheboygan bonds represented 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 March 2011, we sold the Blue Harbor Resort. In connection with the sale of the property, we were released from our obligations under the BANs.

City of Sheboygan Loan The City of Sheboygan loan amount represented a loan made by the City in 2004 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In March 2011, we sold the Blue Harbor Resort. In connection with the sale of the property, we were released from our obligations under the loan.

Future Maturities Future principal requirements on long-term debt as of December 31, 2011 are as follows:

| | |
|--------------|-------------------|
| 2012 | \$ 3,834 |
| 2013 | 4,806 |
| 2014 | 55,333 |
| 2015 | 61,558 |
| 2016 | 1,697 |
| Thereafter | 395,992 |
| Total | \$ 523,220 |

As discussed above, the Traverse City/Kansas City mortgage loan is classified as a current liability as of December 31, 2011, due to the implementation of a traditional lock-box arrangement. The future maturities table above, however, reflects future cash principal repayments currently required under the provisions of that loan in the amounts of \$1,746 in 2012, \$1,882 in 2013, \$2,015 in 2014 and \$59,948 in 2015.

8. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined 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). United States Generally Accepted Accounting Principles (GAAP) 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. Certain assets and liabilities must be measured at fair value, and disclosures are required for items measured at fair value.

We measure our financial instruments 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.

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The following table summarizes our financial assets using the fair value hierarchy on a recurring basis:

December 31, 2011

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------|---------|---------|---------|-------|
| Interest rate caps | \$ | \$ 77 | \$ | \$ 77 |

December 31, 2010

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------|---------|---------|---------|-------|
| Interest rate caps | \$ | \$ | \$ | \$ |

December 31, 2009

| | Level 1 | Level 2 | Level 3 | Total |
|--------------------|---------|---------|---------|--------|
| Interest rate caps | \$ | \$ 133 | \$ | \$ 133 |

Level 2 assets consist of our interest rate caps. To determine the estimated fair value of our interest rate caps we use market information provided by the banks from whom the interest rate caps were purchased from.

As of December 31, 2011, we estimate the total fair value of our long-term debt to be \$25,706 less than its total carrying value due to the terms of the existing debt being different than those terms currently available to us for indebtedness with similar risks and remaining maturities. These fair value estimates have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair values may differ significantly.

The following table summarizes the valuation of certain property and equipment measured at fair value on a nonrecurring basis in the consolidated balance sheet:

December 31, 2010

| | Level 1 | Level 2 | Level 3 | Total |
|------------------------|---------|---------|-----------|-----------|
| Property and equipment | \$ | \$ | \$ 44,000 | \$ 44,000 |

December 31, 2009

| | \$49,775 Level 1 | \$49,775 Level 2 | \$49,775 Level 3 | \$49,775 Total |
|------------------------|---------------------|---------------------|---------------------|-------------------|
| Property and equipment | \$ | \$ | \$ 6,000 | \$ 6,000 |

Property and equipment with a carrying amount of \$62,741 were written down to their fair value of \$44,000 as of December 31, 2010, resulting in an impairment charge of \$18,741. We estimated our Traverse City and Kansas City properties' fair values by using available market information for similar assets, as well as considering estimated future cash flows, terminal values based on the projected cash flows and capitalization rates in the range of what is reported in industry publications for operationally similar assets and other available market information. The cash flows considered in estimating the fair values were discounted using market-based discounts generally used for operationally and geographically similar assets. Although we believe our estimated fair value for the resorts are reasonable, the actual fair value we ultimately realize from these resorts could differ materially from this estimate.

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Property and equipment with a carrying amount of \$30,000 were written down to their fair value of \$6,000 as of September 30, 2009, resulting in an impairment charge of \$24,000. To determine the estimated fair value for purposes of calculating the impairment charge related to our resort in Sheboygan, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets.

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.

9. INCOME TAXES

Income Tax Expense Income tax expense (benefit) consists of:

| | Current | Deferred | Total |
|-------------------------------------|---------|------------|------------|
| Year ended December 31, 2011 | | | |
| Federal | \$ | \$ 5,686 | \$ 5,686 |
| State and local | 817 | 481 | 1,298 |
| Foreign | 100 | | 100 |
| | \$ 917 | \$ 6,167 | \$ 7,084 |
| Year ended December 31, 2010 | | | |
| Federal | \$ | \$ (5,789) | \$ (5,789) |
| State and local | 813 | (619) | 194 |
| Foreign | 82 | | 82 |
| | \$ 895 | \$ (6,408) | \$ (5,513) |
| Year ended December 31, 2009 | | | |
| Federal | \$ | \$ 86 | \$ 86 |
| State and local | 248 | 45 | 293 |
| Foreign | 80 | | 80 |
| | \$ 328 | \$ 131 | \$ 459 |

Total tax expense (benefit) is included in the following line items in our statements of operations:

| | Year Ended December 31, | | |
|--|-------------------------|-------------------|---------------|
| | 2011 | 2010 | 2009 |
| Income tax expense (benefit) | \$ 7,086 | \$ (5,403) | \$ 220 |
| Equity in unconsolidated affiliates, net of tax | 5 | (62) | 19 |
| Discontinued operations, net of tax | | (49) | 220 |
| Net income attributable to noncontrolling interest, net of tax | (7) | 1 | |
| Total income tax expense (benefit) | \$ 7,084 | \$ (5,513) | \$ 459 |

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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:

| | 2011 | 2010 | 2009 |
|---|---------|---------|---------|
| Federal statutory income tax benefit | (35.0)% | (35.0)% | (35.0)% |
| State income taxes, net of federal income taxes | (1.7)% | (3.7)% | (3.5)% |
| Nondeductible goodwill | | | |
| Nondeductible compensation expense | | 3.0% | |
| Investment in affiliates | 1.9% | 2.2% | |
| Change in valuation allowance | 72.0% | 22.1% | 39.7% |
| Other | 0.9% | 1.6% | (0.4)% |
| | 38.1% | (9.8)% | 0.8% |

Deferred Tax Assets and Liabilities The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2011 and 2010 are presented below:

| | 2011 | 2010 |
|----------------------------------|-----------|-----------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 53,962 | \$ 44,710 |
| Intangibles | 9,557 | 11,625 |
| Investment in affiliates | 1,429 | 1,279 |
| Salaries and wages | 1,933 | 1,760 |
| Other | 4,335 | 2,819 |
| Total deferred tax assets | 71,216 | 62,193 |
| Deferred tax liabilities: | | |
| Property and equipment | (15,082) | (12,967) |
| Prepaid expenses | (720) | (1,046) |
| Total deferred tax liabilities | (15,802) | (14,013) |
| Valuation allowance | (48,965) | (35,564) |
| Net deferred tax asset | \$ 6,449 | \$ 12,616 |

Our 2011 net deferred tax asset is comprised of a current deferred tax asset of \$955 included in other current assets and a long-term deferred tax asset of \$54,460, which is included in other assets. Our long-term deferred tax asset is partially offset by a valuation allowance of \$48,965.

Our 2010 net deferred tax asset consisted of a current deferred tax liability of \$148 included in accrued expenses and a long-term deferred tax asset of \$48,328 included in other assets on the consolidated balance sheet. Our long-term deferred tax asset was partially offset by a valuation allowance of \$35,564. The change in our valuation allowance in 2011 was \$13,401.

Net Operating Loss Carryforwards As of December 31, 2011, we had net operating loss carryforwards of approximately \$143,079 and \$112,313 for federal and state income tax purposes, respectively. These federal and state carryforwards begin expiring in 2024 and 2014, respectively. In the event of a change in ownership, the federal and state net operating loss carryforwards may be subject to annual limitations provided by the Internal Revenue Code and similar state provisions. We consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on our analysis, we have recorded a valuation allowance of \$48,965 at December 31, 2011, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire. We also determined that due to current conditions in the credit markets, real estate markets and our current financial position, the tax

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planning strategy we previously expected to generate substantial taxable income was no longer feasible. The valuation allowance is based on our estimates of taxable income solely from the reversal of existing deferred tax liabilities and the period over which deferred tax assets reverse. In the event that actual results differ from these estimates or we adjust these estimates in a future period, we may need to increase or decrease our valuation allowance, which could materially impact our consolidated statement of operations.

As of December 31, 2010, we had net operating loss carryforwards of approximately \$115,774 and \$94,822 for federal and state income tax purposes, respectively. These federal and state carryforwards begin expiring in 2024 and 2014, respectively. We consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on our analysis, we recorded a valuation allowance of \$35,564 at December 31, 2010, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire.

Other In 2010 we recorded a deferred tax asset related to the difference in book versus tax basis of our investment in CK of \$910. The offset to this deferred tax asset was to goodwill.

At December 31, 2011, 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, 2010 | \$ 1,298 |
| Gross increases tax positions in current period | |
| Unrecognized tax benefit December 31, 2011 | \$ 1,298 |

10. RELATED-PARTY TRANSACTIONS

We rented office space for our headquarters through September 2010 from a company that is an affiliate of an individual who was a member of our board of directors through May 2009. Our total payments for rent and related expenses for this office space were \$193, and \$353 for the years ended December 31, 2010 and 2009, respectively, and are included in selling, general and administrative expenses on our consolidated statements of operations and comprehensive loss.

We regularly transact business with our unconsolidated affiliates. The following summarizes our transactions with these unconsolidated affiliates for the years indicated:

| | 2011 | 2010 | 2009 |
|--|----------|----------|----------|
| Management and other fees | \$ 4,981 | \$ 4,594 | \$ 4,973 |
| Other revenue from managed properties | 10,858 | 10,989 | 17,132 |
| Other expenses from managed properties | 10,858 | 10,989 | 17,132 |
| Investment income | 902 | 1,088 | 1,330 |
| Accounts receivable | 3,243 | 3,764 | 2,614 |
| Accounts payable | 27 | 4 | |

Table of Contents**11. 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.

Guarantees We recognize guarantees when the 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. Great Wolf Resorts, Inc. has provided a \$25,000 payment guaranty of the mortgage loan and related interest secured by our Concord, North Carolina resort. If our subsidiary defaults on its obligations under this loan we would be required to assume certain of its obligations, including the payment of up to \$25,000 of outstanding debt amounts, which are already recorded in our consolidated financial statements.

Commitments We lease office space, storage space and office equipment under various operating leases that expire between 2011 and 2017. Most of the leases include renewal options. Future minimum payments on these operating leases are as follows:

| | |
|--------------|-----------------|
| 2012 | \$ 826 |
| 2013 | 691 |
| 2014 | 696 |
| 2015 | 360 |
| 2016 | 262 |
| Thereafter | 268 |
| Total | \$ 3,103 |

Rent expense for the years ended December 31, 2011, 2010, and 2009 was \$1,358, \$1,244, and \$741, respectively.

12. 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 \$391, \$349, and \$339 for the years ended December 31, 2011, 2010, and 2009, respectively.

13. 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 \$236, \$250, and \$185 for the years ended December 31, 2011, 2010 and 2009, 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 excluding non-vested shares. Our diluted earnings per common share assumes the issuance of common stock for all potentially dilutive stock equivalents outstanding using the treasury stock method. In periods in which we incur a net loss, we exclude potentially dilutive stock equivalents from the computation of diluted weighted average shares outstanding, as the effect of those potentially dilutive items is anti-dilutive.

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The trust that holds the assets to pay obligations under our deferred compensation plan has 11,765 shares of our common stock. We treat those shares of common stock as treasury stock for purposes of our earnings per share computations and therefore we exclude them from our basic and diluted earnings per share calculations.

Options to purchase 15,500 shares of common stock were not included in the computations of diluted earnings per share for the year ended December 31, 2011, because the exercise price for the options were greater than the average market price of the common shares during that period. There were 858,508 shares of common stock that were not included in the computation of diluted earnings per share for the year ended December 31, 2011, because the market and/or performance criteria related to these shares had not been met at December 31, 2011.

| | Year Ended December 31, | | |
|--|-------------------------|--------------------|--------------------|
| | 2011 | 2010 | 2009 |
| Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax | \$ (32,297) | \$ (50,554) | \$ (30,518) |
| Income (loss) from discontinued operations, net of tax | 6,634 | (455) | (27,958) |
| Net loss attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (51,009) | \$ (58,476) |
| Weighted average common shares outstanding basic | 31,332,325 | 30,987,818 | 30,749,318 |
| Weighted average common shares outstanding diluted | 31,332,325 | 30,987,818 | 30,749,318 |
| Loss attributable to loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax per shares basic and diluted | \$ (1.03) | \$ (1.63) | \$ (0.99) |
| Income (loss) attributable to discontinued operations, net of tax basic and diluted | 0.21 | (0.02) | (0.91) |
| Net loss attributable to Great Wolf Resorts, Inc. per share basic and diluted | \$ (0.82) | \$ (1.65) | \$ (1.90) |

14. SHARE-BASED COMPENSATION

We recognized share-based compensation expense of \$2,252, \$2,664, and \$1,138, net of estimated forfeitures, in share-based compensation expense for the years ended December 31, 2011, 2010 and 2009, respectively. The total income tax expense (benefit) recognized related to share-based compensation was \$858, \$(261) and \$9 for the years ended December 31, 2011, 2010, and 2009, respectively.

We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the requisite service period of each award recipient. As of December 31, 2011, total unrecognized compensation cost related to share-based compensation awards was \$1,808, which we expect to recognize over a weighted average period of approximately 2.5 years.

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,740 options, stock appreciation rights or shares of our common stock to employees and directors. At December 31, 2011, there were 1,157,024 shares available for future grants under the Plan.

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

Table of Contents***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 \$26 for the year ended December 31, 2009. We recorded no stock option expense for the years ended December 31, 2011 and 2010. There were no stock options granted in 2011, 2010 or 2009. In 2011 and 2010 certain members of our management team and board of directors surrendered and cancelled 5,500 and 404,000 previously granted stock options, respectively.

A summary of stock option activity during the years ended December 31, 2011, 2010, and 2009 is:

| | Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life |
|----------------------------------|-----------|--|---|
| Number of shares under option: | | | |
| Outstanding at January 1, 2009 | 475,000 | \$ 17.59 | 6.09 years |
| Granted | | | |
| Exercised | | | |
| Forfeited | (34,000) | \$ 18.41 | |
| Outstanding at December 31, 2009 | 441,000 | \$ 17.53 | 5.09 years |
| Granted | | | |
| Exercised | | | |
| Forfeited | (405,000) | \$ 17.39 | |
| Outstanding at December 31, 2010 | 36,000 | \$ 19.03 | 4.15 years |
| Granted | | | |
| Exercised | | | |
| Forfeited | (20,500) | \$ 20.24 | |
| Outstanding at December 31, 2011 | 15,500 | \$ 17.44 | 3.02 years |
| Exercisable at December 31, 2011 | 15,500 | \$ 17.44 | 3.02 years |

At December 31, 2011, 2010 and 2009, the exercise prices of all of our outstanding and exercisable options were above our stock price. Therefore there was no intrinsic value for our outstanding or exercisable shares at December 31, 2011, 2010 or 2009.

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.

We granted 444,002, 515,986 and 541,863 market condition share awards during the years ended December 31, 2011, 2010 and 2009, respectively. We recorded share-based compensation expense of \$864, \$1,245 and \$367 for the years ended December 31, 2011, 2010 and 2009, respectively.

Of the 2011 market condition shares granted:

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277,894 were based on our common stock's performance in 2011 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, 2011-2013. The per share fair value of these market condition shares was \$2.35 as of the grant date.

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

| | |
|---|--------|
| Dividend yield | |
| Weighted average, risk free interest rate | 0.25% |
| Expected stock price volatility | 64.73% |
| Expected stock price volatility (small-cap stock index) | 29.39% |

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 10.6-month treasury constant maturity. Our expected stock price volatility and the expected stock price volatility for the small cap stock index was estimated using daily returns data of our stock and the index for the period February 11, 2009 through February 10, 2011.

We originally granted 277,894 market condition shares for 2011 and recorded expense during 2011 associated with that estimated number of shares to be issued for these market condition awards. The original share grant amount represented the number of shares that would be earned at a target level of performance. Based on our common stock's performance in 2011, however, we expect the maximum performance condition for these market condition share awards will be met. As a result, we expect to issue 416,841 shares related to these market condition awards. Accordingly, we have recorded \$109 of additional compensation expense in the fourth quarter of 2011 related to our revised estimate that employees will earn the maximum level of shares rather than the target level of shares for these awards.

83,054 were based on our common stock's absolute performance over the three-year period 2010-2012. For shares that are earned, half of the shares vest on December 31, 2012, and the other half vest on December 31, 2013. The per share fair value of these market condition shares was \$2.15 as of the grant date.

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

| | |
|---|--------|
| Dividend yield | |
| Weighted average, risk free interest rate | 0.58% |
| Expected stock price volatility | 64.73% |

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 1.89-year treasury constant maturity. Our expected stock price volatility was estimated using daily returns data of our stock for the period February 11, 2009 through February 10, 2011.

83,054 were based on our common stock's performance over the three-year period 2010-2012 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. For shares that are earned, half of the shares vest on December 31, 2012, and the other half vest on December 31, 2013. The per share fair value of these market condition shares was \$2.19 as of the grant date.

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

| | |
|---|--------|
| Dividend yield | |
| Weighted average, risk free interest rate | 0.58% |
| Expected stock price volatility | 64.73% |
| Expected stock price volatility (small-cap stock index) | 29.39% |

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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 1.89-year treasury constant maturity. Our expected stock price volatility and the expected stock price volatility for the small cap stock index was estimated using daily returns data of our stock and the index for the period February 11, 2009 through February 10, 2011.

Of the 2010 market condition shares granted:

333,060 were based on our common stock's performance in 2010 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, 2010-2012. The per share fair value of these market condition shares was \$2.43 as of the grant date.

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

| | |
|---|---------|
| Dividend yield | |
| Weighted average, risk free interest rate | 0.26% |
| Expected stock price volatility | 108.06% |
| Expected stock price volatility (small-cap stock index) | 40.92% |

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 9-month treasury constant maturity. 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.

The market condition for these shares was not met and therefore no shares related to this grant were issued. As a result, we recorded the entire fair value of the grant as expense in 2010 of \$810,341.

91,463 were based on our common stock's absolute performance over the three-year period 2010-2012. For shares that are earned, half of the shares vest on December 31, 2012, and the other half vest on December 31, 2013. The per share fair value of these market condition shares was \$2.53 as of the grant date.

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

| | |
|---|--------|
| Dividend yield | |
| Weighted average, risk free interest rate | 1.27% |
| Expected stock price volatility | 95.21% |

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 2.75-year treasury constant maturity. Our expected stock price volatility was estimated using daily returns data of our stock for the period June 29, 2007 through March 30, 2010.

91,463 were based on our common stock's performance over the three-year period 2010-2012 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. For shares that are earned, half of the shares vest on December 31, 2012, and the other half vest on December 31, 2013. The per share fair value of these market condition shares was \$2.61 as of the grant date.

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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 | 1.27% |
| Expected stock price volatility | 95.21% |
| Expected stock price volatility (small-cap stock index) | 37.51% |

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 2.75-year treasury constant maturity. Our expected stock price volatility and the expected stock price volatility for the small cap stock index was estimated using daily returns data of our stock for the period June 29, 2007 through March 30, 2010.

Of the 2009 market condition shares granted:

541,863 were based on our common stock's performance in 2009 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. These shares vest ratably over a three-year period, 2009-2011. The per share fair value of these market condition shares was \$1.26 as of the grant date.

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

| | |
|---|--------|
| Dividend yield | |
| Weighted average, risk free interest rate | 0.62% |
| Expected stock price volatility | 96.51% |
| Expected stock price volatility (small-cap stock index) | 37.89% |

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

Based on our common stock performance in 2009, employees earned all of these market condition shares.

Of the 2007 market condition shares awards granted:

81,293 were based on our common stock's absolute performance over the three-year period 2007-2009. Half of these shares vested on December 31, 2009, and the other half vest on December 31, 2011. The per share fair value of these market condition shares was \$6.65.

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

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

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

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In March 2010, our Compensation Committee of the board of directors determined that based on our common stock performance over the three year period 2007-2009, employees did not earn any of these market condition shares. Therefore, the remaining unamortized expense related to these shares of \$19 was expensed in the year ended December 31, 2010.

81,293 were based on our common stock's performance over the three-year period 2007-2009 relative to a stock index, as designated by the Compensation Committee of the board of directors. Half of these shares vested 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.

In March 2010, our Compensation Committee of the board of directors determined that based on our common stock performance over the three year period 2007-2009, employees did not earn any of these market condition shares. Therefore, the remaining unamortized expense related to these shares of \$23 was expensed in the year ended December 31, 2010.

Performance Share Awards

Certain employees are eligible to receive shares of our common stock in payment of performance share awards granted to them. 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 in which the shares were granted. We granted 92,633, 111,020 and 180,622 performance shares during the years ended December 31, 2011, 2010 and 2009, respectively. Shares earned related to shares granted in 2011 vest over a three year period, 2011-2013; shares earned related to shares granted in 2010 vest ratably over a three year period, 2010-2012; shares earned related to shares granted in 2009 vest ratably over a three-year period, 2009-2011.

The per share fair value of performance shares granted during the years ended December 31, 2011, 2010 and 2009, was \$3.23, \$3.18 and \$1.54, respectively, which represents the fair value of our common stock on the grant date. We recorded share-based compensation expense of \$285, \$244 and \$184 for the years ended December 31, 2011, 2010 and 2009, respectively. Since all shares originally granted were not earned, we recorded a reduction in expense of \$16, \$9 and \$2 during the years ended December 31, 2011, 2010 and 2009, respectively, related to the shares not issued.

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

Employees earned and were issued 96,305 performance shares in February 2011 related to the 2010 grants,

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Employees earned and were issued 162,559 performance shares in March 2010 related to the 2009 grants, and

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

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. 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. 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 (income) of \$3, \$3 and \$(348), for the years ended December 31, 2011, 2010 and 2009, 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 as follows:

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

We have granted non-vested shares to certain employees for shares earned under the Market Condition Share Awards as described above. These shares vest ratably over a three-year period. We valued the non-vested shares related to Market Condition Shares Awards using a Monte Carlo simulation as described above.

We have granted non-vested shares to certain employees for shares earned under the Performance Share Awards as described above. These shares vest ratably over a three-year period. We valued the non-vested shares related to Performance Share Awards at the closing market value of our common stock on the date of grant of the Performance Share Awards.

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A summary of non-vested shares activity for the years ended December 31, 2011, 2010, and 2009 is as follows:

| | Shares | Weighted Average Grant Date Fair Value |
|--|-----------|---|
| Non-vested shares balance at January 1, 2009 | 300,249 | \$ 9.29 |
| Granted | 331,179 | \$ 2.75 |
| Forfeited | (61,809) | \$ 4.73 |
| Vested | (86,151) | \$ 10.79 |
| Non-vested shares balance at December 31, 2009 | 483,468 | \$ 5.13 |
| Granted | 1,306,653 | \$ 2.10 |
| Forfeited | (11,400) | \$ 4.47 |
| Vested | (615,342) | \$ 2.52 |
| Non-vested shares balance at December 31, 2010 | 1,163,379 | \$ 3.12 |
| Granted | 292,365 | \$ 2.76 |
| Forfeited | (46,500) | \$ 4.48 |
| Vested | (498,566) | \$ 2.76 |
| Non-vested shares balance at December 31, 2011 | 910,678 | \$ 3.13 |

Our non-vested shares had an intrinsic value of \$182, \$380, and \$1 at December 31, 2011, 2010, and 2009, respectively.

We recorded share-based compensation expense related to non-vested shares of \$1,094, \$1,123, and \$837 for the years ended December 31, 2011, 2010, and 2009, respectively.

Vested Shares

We have an annual short-term incentive plan for certain employees that provides them the potential to earn cash bonus payments. In 2010 and 2009, 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.

In connection with the elections related to 2010 bonus amounts, we issued 33,545 shares in February 2011. We valued these shares at \$96 based on the closing market value of our common stock on the date of the grant.

There were no shares issued during the year ended December 31, 2010 related to 2009 bonus amounts.

In 2011, 2010 and 2009, our directors had the option to elect to have some or the entire cash portion of their annual fees paid in the form of shares of our common stock rather than cash. Directors making this election 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 share-based compensation expense of \$22, \$58 and \$74 for the years ended December 31, 2011, 2010 and 2009, respectively, related to these elections to receive shares in lieu of cash. We issued 10,118, 26,693 and 31,347 shares during the years ended December 31, 2011, 2010 and 2009, respectively.

15. DISCONTINUED OPERATIONS

On March 24, 2011, we sold our Blue Harbor Resort in Sheboygan, Wisconsin to Claremont New Frontier Resort LLC (Claremont) for a purchase price of \$4,200, less a \$540 credit for purposes of real estate property tax.

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payments to be made by Claremont for periods after the closing. We paid \$2,000 to the City of Sheboygan with respect to real estate taxes relating to the Sheboygan property and contributed \$300 toward a lease termination fee payable to a tenant at the property.

In connection with the construction of the Blue Harbor Resort, we had entered into agreements with the City of Sheboygan and the Redevelopment Authority of the City of Sheboygan whereby the City funded certain costs of construction. In exchange, we guaranteed certain levels of real and personal property tax payments, as well as room tax payments, from Blue Harbor Resort.

In connection with the closing, the existing agreements with the City of Sheboygan and the Redevelopment Authority were terminated, and we were released from all of our obligations under these agreements.

As a result of the sale, we have included the operations of the Blue Harbor Resort in discontinued operations for all periods presented. The operation of the Blue Harbor Resort was included in our Resort ownership/operation segment.

A summary of balance sheet data and operating activity related to this discontinued operation is as follows:

| | March 23, 2011 | December 31, 2010 |
|----------------------------|---------------------------|------------------------------|
| Balance sheet data: | | |
| Total assets | \$ 6,463 | \$ 8,742 |
| Total liabilities | \$ 13,587 | \$ 14,121 |

Included in total assets at December 31, 2010 is \$5,775 of property and equipment. Included in total liabilities at December 31, 2010 is \$11,627 of other long-term debt. As part of the sale transaction on March 23, 2011, we wrote off \$5,699 of property and equipment and \$11,563 of other long-term debt.

| | 2011 | 2010 | 2009 |
|--|-------------|-------------|-------------|
| Revenues | \$ 1,578 | \$ 8,246 | \$ 7,794 |
| Operating expenses | (1,535) | (8,026) | (34,770) |
| Gain on sale | 6,667 | | |
| Interest expense, net of interest income | (76) | (724) | (762) |
| Income tax benefit (expense) | | 49 | (220) |
| Income (loss) from discontinued operations, net of tax | \$ 6,634 | \$ (455) | \$ (27,958) |

16. SUPPLEMENTAL GUARANTOR CONSOLIDATING FINANCIAL STATEMENTS

On April 7, 2010, our subsidiaries, GWR Operating Partnership, LLLP and Great Wolf Finance Corp. were co-issuers (the Issuers) with respect to \$230,000 in principal amount of 10.875% first mortgage notes. In connection with the issuance, certain of our subsidiaries (the Subsidiary Guarantors) have guaranteed the first mortgage notes. Certain of our other subsidiaries (the Non-Guarantor Subsidiaries) have not guaranteed the first mortgage notes.

The following tables present the consolidating balances sheets of the Company (Parent), the Issuers, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries as of December 31, 2011 and December 31, 2010, the consolidating statements of operations for the years ended December 31, 2011, 2010 and 2009 and the consolidating statements of cash flows for the years ended December 31, 2011, 2010 and 2009.

The accompanying condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, *Financial statements of guarantors and issuers of guaranteed securities registered or being registered*. Each of the Subsidiary Guarantors is 100% owned, directly or indirectly, by Great Wolf Resorts, Inc. There are significant restrictions on the Subsidiary Guarantors' ability to pay dividends or obtain loans or advances. The Company's and the Issuers' investments in their consolidated subsidiaries are presented under the equity method of accounting.

Table of Contents**CONSOLIDATING BALANCE SHEET****December 31, 2011****(Dollars in thousands)**

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|------------|------------|--------------------------|----------------------------------|------------------------------|--------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 10,039 | \$ 15,980 | \$ 814 | \$ 6,934 | \$ | \$ 33,767 |
| Escrows | | | | 2,618 | | 2,618 |
| Accounts receivable | 327 | | 1,335 | 1,998 | | 3,660 |
| Accounts receivable affiliates | | | 1,461 | 1,782 | | 3,243 |
| Accounts receivable consolidating entities | 10,417 | 472,289 | 582,378 | 206,399 | (1,271,483) | |
| Inventory | | | 2,882 | 4,688 | | 7,570 |
| Other current assets | 2,093 | | 1,673 | 3,401 | | 7,167 |
| Total current assets | 22,876 | 488,269 | 590,543 | 227,820 | (1,271,483) | 58,025 |
| Property and equipment, net | | | 330,496 | 245,766 | | 576,262 |
| Investment in consolidating entities | 200,123 | 274,959 | | | (475,082) | |
| Investment in and advances to affiliates | | | | 24,311 | | 24,311 |
| Other assets | 9,765 | 6,702 | 7,964 | 1,618 | | 26,049 |
| Intangible assets | 1,365 | | 4,668 | 20,642 | | 26,675 |
| Total assets | \$ 234,129 | \$ 769,930 | \$ 933,671 | \$ 520,157 | \$ (1,746,565) | \$ 711,322 |
| LIABILITIES AND EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Current portion of long-term debt | \$ | \$ | \$ 14 | \$ 67,664 | \$ | \$ 67,678 |
| Accounts payable | 1 | | 1,907 | 3,393 | | 5,301 |
| Accounts payable affiliates | | | 10 | 17 | | 27 |
| Accounts payable consolidating entities | 5,730 | 341,588 | 747,086 | 177,079 | (1,271,483) | |
| Accrued expenses | 1,589 | 6,265 | 13,702 | 10,667 | | 32,223 |
| Advance deposits | | | 2,685 | 5,030 | | 7,715 |
| Other current liabilities | 4,384 | | 1,132 | 2,013 | | 7,529 |
| Total current liabilities | 11,704 | 347,853 | 766,536 | 265,863 | (1,271,483) | 120,473 |
| Mortgage debt | | 221,954 | | 144,997 | | 366,951 |
| Other long-term debt | 80,545 | | | | | 80,545 |
| Deferred compensation liability | | | 1,502 | | | 1,502 |
| Total liabilities | 92,249 | 569,807 | 768,038 | 410,860 | (1,271,483) | 569,471 |
| Commitments and contingencies | | | | | | |
| Great Wolf Resorts stockholders' equity: | | | | | | |
| Common stock | 325 | | | | | 325 |
| Preferred stock | | | | | | |
| Additional paid-in-capital | 404,714 | 456,693 | 163,514 | 293,179 | (913,386) | 404,714 |
| Accumulated deficit | (262,959) | (256,570) | 2,119 | (183,853) | 438,304 | (262,959) |
| Deferred compensation | (200) | | | | | (200) |
| Total Great Wolf Resorts stockholders' equity | 141,880 | 200,123 | 165,633 | 109,326 | (475,082) | 141,880 |
| Noncontrolling interest | | | | (29) | | (29) |
| Total equity | 141,880 | 200,123 | 165,633 | 109,297 | (475,082) | 141,851 |
| Total liabilities and equity | \$ 234,129 | \$ 769,930 | \$ 933,671 | \$ 520,157 | \$ (1,746,565) | \$ 711,322 |

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| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|------------|------------|--------------------------|----------------------------------|------------------------------|--------------|
| ASSETS | | | | | | |
| Current assets: | | | | | | |
| Cash and cash equivalents | \$ 10,047 | \$ 24,168 | \$ (328) | \$ 3,101 | \$ | \$ 36,988 |
| Escrows | | | | 1,283 | | 1,283 |
| Accounts receivable | 88 | | 1,615 | 1,575 | | 3,278 |
| Accounts receivable affiliates | | | 1,369 | 2,395 | | 3,764 |
| Accounts receivable consolidating entities | 12,747 | 462,941 | 304,775 | 151,770 | (932,233) | |
| Inventory | | | 2,593 | 4,278 | | 6,871 |
| Other current assets | 192 | | 1,512 | 2,915 | | 4,619 |
| Total current assets | 23,074 | 487,109 | 311,536 | 167,317 | (932,233) | 56,803 |
| Property and equipment, net | | | 352,689 | 271,269 | | 623,958 |
| Investment in consolidating entities | 210,356 | 257,151 | | | (467,507) | |
| Investment in and advances to affiliates | | | | 25,131 | | 25,131 |
| Other assets | 17,274 | 7,948 | 7,070 | 6,357 | | 38,649 |
| Intangible assets | 1,365 | | 4,668 | 20,664 | | 26,697 |
| Total assets | \$ 252,069 | \$ 752,208 | \$ 675,963 | \$ 490,738 | \$ (1,399,740) | \$ 771,238 |
| LIABILITIES AND EQUITY | | | | | | |
| Current liabilities: | | | | | | |
| Current portion of long-term debt | \$ | \$ | \$ 33 | \$ 70,050 | \$ | \$ 70,083 |
| Accounts payable | 151 | | 5,543 | 2,805 | | 8,499 |
| Accounts payable affiliates | | | 1 | 3 | | 4 |
| Accounts payable consolidating entities | 423 | 314,488 | 510,186 | 107,136 | (932,233) | |
| Accrued expenses | 1,010 | 6,942 | 11,534 | 9,033 | | 28,519 |
| Advance deposits | | | 2,522 | 4,950 | | 7,472 |
| Other current liabilities | 4,161 | | 1,111 | 2,144 | | 7,416 |
| Total current liabilities | 5,745 | 321,430 | 530,930 | 196,121 | (932,233) | 121,993 |
| Mortgage debt | | 220,422 | | 169,867 | | 390,289 |
| Other long-term debt | 80,545 | | 14 | 11,367 | | 91,926 |
| Deferred compensation liability | | | 1,260 | | | 1,260 |
| Total liabilities | 86,290 | 541,852 | 532,204 | 377,355 | (932,233) | 605,468 |
| Commitments and contingencies | | | | | | |
| Great Wolf Resorts stockholders' equity: | | | | | | |
| Common stock | 323 | | | | | 323 |
| Preferred stock | | | | | | |
| Additional paid-in-capital | 402,952 | 456,693 | 163,514 | 293,179 | (913,386) | 402,952 |
| Accumulated deficit | (237,296) | (246,337) | (19,755) | (179,787) | 445,879 | (237,296) |
| Deferred compensation | (200) | | | | | (200) |
| Total Great Wolf Resorts stockholders' equity | 165,779 | 210,356 | 143,759 | 113,392 | (467,507) | 165,779 |
| Noncontrolling interest | | | | (9) | | (9) |
| Total equity | 165,779 | 210,356 | 143,759 | 113,383 | (467,507) | 165,770 |
| Total liabilities and equity | \$ 252,069 | \$ 752,208 | \$ 675,963 | \$ 490,738 | \$ (1,399,740) | \$ 771,238 |

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Year ended December 31, 2011

(Dollars in thousands)

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-----------------|-----------------|--------------------------|----------------------------------|------------------------------|-----------------|
| Revenues: | | | | | | |
| Rooms | \$ | \$ | \$ 88,161 | \$ 86,164 | \$ | 174,325 |
| Food and beverage | | | 24,431 | 22,076 | | 46,507 |
| Other | | | 20,577 | 25,333 | | 45,910 |
| Management and other fees | 586 | | 23,271 | 34 | (21,079) | 2,812 |
| Management and other fees affiliates | | | 4,981 | | | 4,981 |
| | 586 | | 161,421 | 133,607 | (21,079) | 274,535 |
| Other revenue from managed properties | | | 11,315 | | | 11,315 |
| Other revenue from managed properties affiliates | | | 10,858 | | | 10,858 |
| Total revenues | 586 | | 183,594 | 133,607 | (21,079) | 296,708 |
| Operating expenses by department: | | | | | | |
| Rooms | | | 14,573 | 13,993 | (3,497) | 25,069 |
| Food and beverage | | | 18,899 | 16,593 | | 35,492 |
| Other | | | 16,758 | 20,705 | | 37,463 |
| Other operating expenses: | | | | | | |
| Selling, general and administrative | 3,397 | 132 | 46,727 | 31,572 | (17,496) | 64,332 |
| Property operating costs | | | 16,480 | 18,893 | | 35,373 |
| Depreciation and amortization | 303 | 1,370 | 25,486 | 26,564 | | 53,723 |
| Loss on disposition of assets | | | 135 | 1,378 | | 1,513 |
| | 3,700 | 1,502 | 139,058 | 129,698 | (20,993) | 252,965 |
| Other expenses from managed properties | | | 11,315 | | | 11,315 |
| Other expenses from managed properties affiliates | | | 10,858 | | | 10,858 |
| Total operating expenses | 3,700 | 1,502 | 161,231 | 129,698 | (20,993) | 275,138 |
| Net operating (loss) income | (3,114) | (1,502) | 22,363 | 3,909 | (86) | 21,570 |
| Investment income affiliates | | | | (902) | | (902) |
| Interest income | (196) | (5) | | (9) | | (210) |
| Interest expense | 6,343 | 26,544 | 1 | 15,014 | | 47,902 |
| (Loss) income from continuing operations before income taxes and equity in unconsolidated affiliates | (9,261) | (28,041) | 22,362 | (10,194) | (86) | (25,220) |
| Income tax (benefit) expense | 6,169 | | 488 | 429 | | 7,086 |
| Equity in unconsolidated affiliates, net of tax | 10,233 | (17,808) | | 20 | 7,573 | 18 |
| Net (loss) income | (25,663) | (10,233) | 21,874 | (10,643) | (7,659) | (32,324) |
| Discontinued operations, net of tax | | | | (6,550) | (84) | (6,634) |
| Net (loss) income | (25,663) | (10,233) | 21,874 | (4,093) | (7,575) | (25,690) |

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| | | | | | | | |
|--|-------------|-------------|-----------|------------|------------|-------------|------|
| Net income attributable to noncontrolling interest, net of tax | | | | | (27) | | (27) |
| Net (loss) income attributable to Great Wolf Resorts, Inc. | \$ (25,663) | \$ (10,233) | \$ 21,874 | \$ (4,066) | \$ (7,575) | \$ (25,663) | |

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS**

Year ended December 31, 2010

(Dollars in thousands)

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|----------|----------|--------------------------|----------------------------------|------------------------------|--------------|
| Revenues: | | | | | | |
| Rooms | \$ | \$ | \$ 80,021 | \$ 78,964 | \$ | 158,985 |
| Food and beverage | | | 23,484 | 20,950 | | 44,434 |
| Other | | | 19,051 | 24,178 | | 43,229 |
| Management and other fees | 451 | | 21,777 | 66 | (19,648) | 2,646 |
| Management and other fees affiliates | | | 4,594 | | | 4,594 |
| | 451 | | 148,927 | 124,158 | (19,648) | 253,888 |
| Other revenue from managed properties | | | 11,083 | | | 11,083 |
| Other revenue from managed properties affiliates | | | 10,989 | | | 10,989 |
| Total revenues | 451 | | 170,999 | 124,158 | (19,648) | 275,960 |
| Operating expenses by department: | | | | | | |
| Rooms | | | 13,574 | 12,722 | (3,190) | 23,106 |
| Food and beverage | | | 17,603 | 15,569 | | 33,172 |
| Other | | | 15,865 | 18,069 | | 33,934 |
| Other operating expenses: | | | | | | |
| Selling, general and administrative | 2,850 | 144 | 46,538 | 31,570 | (16,027) | 65,075 |
| Property operating costs | | | 16,208 | 16,796 | | 33,004 |
| Depreciation and amortization | 153 | 940 | 30,356 | 26,869 | | 58,318 |
| Asset impairment loss | | | | 18,741 | | 18,741 |
| Loss on disposition of assets | | | 9 | 10 | | 19 |
| | 3,003 | 1,084 | 140,153 | 140,346 | (19,217) | 265,369 |
| Other expenses from managed properties | | | 11,083 | | | 11,083 |
| Other expenses from managed properties affiliates | | | 10,989 | | | 10,989 |
| Total operating expenses | 3,003 | 1,084 | 162,225 | 140,346 | (19,217) | 287,441 |
| Net operating (loss) income | (2,552) | (1,084) | 8,774 | (16,188) | (431) | (11,481) |
| Investment income affiliates | | | | (1,088) | | (1,088) |
| Interest income | (531) | (13) | (2) | 3 | | (543) |
| Interest expense | 6,343 | 19,466 | 3,860 | 15,871 | | 45,540 |
| (Loss) income from continuing operations before income taxes and equity in affiliates | | | | | | |
| | (8,364) | (20,537) | 4,916 | (30,974) | (431) | (55,390) |
| Income tax (benefit) expense | (6,347) | | 557 | 429 | (42) | (5,403) |
| Equity in unconsolidated affiliates, net of tax | 48,992 | 28,455 | | 576 | (77,447) | 576 |
| Net (loss) income from continuing operations | (51,009) | (48,992) | 4,359 | (31,979) | 77,058 | (50,563) |
| Discontinued operations, net of tax | | | | 844 | (389) | 455 |
| Net (loss) income | (51,009) | (48,992) | 4,359 | (32,823) | 77,447 | (51,018) |

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| | | | | | | | | |
|--|--|--|--|--|--|-----|--|-----|
| Net income attributable to noncontrolling interest, net of tax | | | | | | (9) | | (9) |
|--|--|--|--|--|--|-----|--|-----|

| | | | | | | |
|--|-------------|-------------|----------|-------------|-----------|-------------|
| Net (loss) income attributable to Great Wolf Resorts, Inc. | \$ (51,009) | \$ (48,992) | \$ 4,359 | \$ (32,814) | \$ 77,447 | \$ (51,009) |
|--|-------------|-------------|----------|-------------|-----------|-------------|

Table of Contents**CONSOLIDATING STATEMENT OF OPERATIONS**

Year ended December 31, 2009

(Dollars in thousands)

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|--------------|-------------|--------------------------|----------------------------------|------------------------------|----------------|
| Revenues: | | | | | | |
| Rooms | \$ | \$ | \$ 78,347 | \$ 72,218 | \$ | \$ 150,565 |
| Food and beverage | | | 22,633 | 18,600 | | 41,233 |
| Other hotel operations | | | 19,350 | 16,830 | | 36,180 |
| Management and other fees | 697 | | 18,343 | 77 | (17,127) | 1,990 |
| Management and other fees affiliates | | | 4,973 | | | 4,973 |
| | 697 | | 143,646 | 107,725 | (17,127) | 234,941 |
| Other revenue from managed properties | | | 4,166 | | | 4,166 |
| Other revenue from managed properties affiliates | | | 17,132 | | | 17,132 |
| Total revenues | 697 | | 164,944 | 107,725 | (17,127) | 256,239 |
| Operating expenses by department: | | | | | | |
| Rooms | | | 12,720 | 11,707 | (3,022) | 21,405 |
| Food and beverage | | | 17,340 | 14,542 | | 31,882 |
| Other | | | 15,740 | 14,835 | | 30,575 |
| Other operating expenses: | | | | | | |
| Selling, general and administrative | 2,908 | 141 | 42,065 | 27,312 | (13,695) | 58,731 |
| Property operating costs | | | 16,651 | 19,561 | | 36,212 |
| Depreciation and amortization | 155 | | 29,871 | 23,343 | | 53,369 |
| Loss on disposition of property | | | 191 | 64 | | 255 |
| | 3,063 | 141 | 134,578 | 111,364 | (16,717) | 232,429 |
| Other expenses from managed properties | | | 4,166 | | | 4,166 |
| Other expenses from managed properties affiliates | | | 17,132 | | | 17,132 |
| Total operating expenses | 3,063 | 141 | 155,876 | 111,364 | (16,717) | 253,727 |
| Net operating (loss) income | (2,366) | (141) | 9,068 | (3,639) | (410) | 2,512 |
| Gain on sale of unconsolidated affiliate | | | | (962) | | (962) |
| Investment income affiliates | | | | (1,330) | | (1,330) |
| Interest income | (605) | (17) | (13) | (2) | | (637) |
| Interest expense | 6,123 | | 12,923 | 14,258 | | 33,304 |
| Loss from continuing operations before income taxes and equity in unconsolidated affiliates | (7,884) | (124) | (3,842) | (15,603) | (410) | (27,863) |
| Income tax expense (benefit) | 192 | | 330 | (305) | 3 | 220 |
| Equity in unconsolidated affiliates, net of tax | 50,400 | 50,276 | | 2,435 | (100,676) | 2,435 |
| Net income (loss) from continuing operations | (58,476) | (50,400) | (4,172) | (17,773) | 100,263 | (30,518) |
| Discontinued operations, net of tax | | | | 28,371 | (413) | 27,958 |
| Net (loss) income | \$ (58,476) | \$ (50,400) | \$ (4,172) | \$ (46,104) | \$ 100,676 | \$ (58,476) |

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS**

Year ended December 31, 2011

(Dollars in thousands)

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------|-------------|--------------------------|----------------------------------|------------------------------|--------------|
| Operating activities: | | | | | | |
| Net (loss) income | \$ (25,663) | \$ (10,233) | \$ 21,874 | \$ (4,093) | \$ (7,575) | \$ (25,690) |
| Adjustment to reconcile net (loss) income to net cash (used) provided by operating activities: | | | | | | |
| Depreciation and amortization | 303 | 1,371 | 25,486 | 26,663 | | 53,823 |
| Bad debt expense | | | (13) | 42 | | 29 |
| Non-cash employee compensation and professional fee expense | | | 2,252 | | | 2,252 |
| Loss on disposition of assets | | | 137 | 1,376 | | 1,513 |
| Gain on disposition of property included in discontinued operations | | | | (6,667) | | (6,667) |
| Equity in unconsolidated affiliates | 10,233 | (17,808) | | 13 | 7,575 | 13 |
| Deferred tax expense | 6,167 | | | | | 6,167 |
| Changes in operating assets and liabilities | 2,427 | (679) | (3,921) | (399) | | (2,572) |
| Net cash (used in) provided by operating activities | (6,533) | (27,349) | 45,815 | 16,935 | | 28,868 |
| Investing activities: | | | | | | |
| Capital expenditures for property and equipment | | | (3,515) | (5,808) | | (9,323) |
| Loan repayment from unconsolidated affiliate | | | | 807 | | 807 |
| Investment in development | | | (422) | | | (422) |
| Proceeds from sale of a discontinued operation | | | | 4,200 | | 4,200 |
| Proceeds from sale of assets | | | | 2 | | 2 |
| (Increase) decrease in restricted cash | (1,001) | | | 724 | | (277) |
| Net cash used in investing activities | (1,001) | | (3,937) | (75) | | (5,013) |
| Financing activities: | | | | | | |
| Principal payments on long-term debt | | 1,532 | (33) | (83,060) | | (81,561) |
| Proceeds from issuance of long-term debt | | | | 56,000 | | 56,000 |
| Payment of loan costs | (111) | (123) | | (1,281) | | (1,515) |
| Advances from consolidating entities, net | 7,637 | 17,752 | (40,703) | 15,314 | | |
| Net cash provided by (used in) financing activities | 7,526 | 19,161 | (40,736) | (13,027) | | (27,076) |
| Net increase in cash and cash equivalents | (8) | (8,188) | 1,142 | 3,833 | | (3,221) |
| Cash and cash equivalents, beginning of period | 10,047 | 24,168 | (328) | 3,101 | | 36,988 |
| Cash and cash equivalents, end of period | \$ 10,039 | \$ 15,980 | \$ 814 | \$ 6,934 | \$ | \$ 33,767 |

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS**

Year ended December 31, 2010

(Dollars in thousands)

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|---|-------------|-------------|--------------------------|----------------------------------|------------------------------|--------------|
| Operating activities: | | | | | | |
| Net (loss) income | \$ (51,009) | \$ (48,992) | \$ 4,359 | \$ (32,823) | \$ 77,447 | \$ (51,018) |
| Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities: | | | | | | |
| Depreciation and amortization | 153 | 940 | 30,356 | 27,018 | | 58,467 |
| Bad debt expense | | | 145 | 81 | | 226 |
| Asset impairment loss | | | | 18,741 | | 18,741 |
| Non-cash employee compensation and professional fees expense | | | 2,664 | | | 2,664 |
| Loss on disposition of assets | | | 9 | 9 | | 18 |
| Equity in unconsolidated affiliates | 48,992 | 28,455 | | 576 | (77,384) | 639 |
| Deferred tax benefit | (6,408) | | | | | (6,408) |
| Changes in operating assets and liabilities | 1,771 | 6,930 | (2,446) | (409) | (63) | 5,783 |
| Net cash (used in) provided by operating activities | (6,501) | (12,667) | 35,087 | 13,193 | | 29,112 |
| Investing activities: | | | | | | |
| Capital expenditures for property and equipment | | | (4,142) | (4,541) | | (8,683) |
| Loan repayment from unconsolidated affiliate | | | | 1,715 | | 1,715 |
| Investment in development | | | (517) | | | (517) |
| Proceeds from sale of assets | | | | 19 | | 19 |
| Cash acquired in acquisition of Creative Kingdoms, LLC | | | | 324 | | 324 |
| Decrease (increase) in restricted cash | | | 4,430 | (1,766) | | 2,664 |
| Net cash (used in) provided by investing activities | | | (229) | (4,249) | | (4,478) |
| Financing activities: | | | | | | |
| Principal payments on long-term debt | | 1,124 | (214,865) | (3,369) | | (217,110) |
| Proceeds from issuance of long-term debt | | 219,298 | | 39 | | 219,337 |
| Payment of loan costs | 49 | (8,887) | (1,836) | (112) | | (10,786) |
| Advances from consolidating entities, net | 11,476 | (189,238) | 183,105 | (5,343) | | |
| Net cash provided by (used in) financing activities | 11,525 | 22,297 | (33,596) | (8,785) | | (8,559) |
| Net increase in cash and cash equivalents | 5,024 | 9,630 | 1,262 | 159 | | 16,075 |
| Cash and cash equivalents, beginning of period | 5,023 | 14,538 | (1,590) | 2,942 | | 20,913 |
| Cash and cash equivalents, end of period | \$ 10,047 | \$ 24,168 | \$ (328) | \$ 3,101 | \$ | \$ 36,988 |

Table of Contents**CONSOLIDATING STATEMENT OF CASH FLOWS**

Year ended December 31, 2009

(Dollars in thousands)

| | Parent | Issuers | Subsidiary Guarantors | Non Guarantor Subsidiaries | Consolidating Adjustments | Consolidated |
|--|-------------|-------------|--------------------------|----------------------------------|------------------------------|--------------|
| Operating activities: | | | | | | |
| Net loss | \$ (58,476) | \$ (50,400) | \$ (4,172) | \$ (46,104) | \$ 100,676 | \$ (58,476) |
| Adjustment to reconcile net loss to net cash (used in) provided by operating activities: | | | | | | |
| Depreciation and amortization | 155 | | 29,871 | 26,352 | | 56,378 |
| Bad debt expense | | | 617 | 63 | | 680 |
| Asset impairment loss | | | | 24,000 | | 24,000 |
| Non-cash employee and director compensation | | | 1,138 | | | 1,138 |
| Loss on disposition of assets | | | 191 | 64 | | 255 |
| Gain on sale of unconsolidated affiliate | | | | (962) | | (962) |
| Equity in unconsolidated affiliates | 50,400 | 50,276 | | 2,416 | (100,676) | 2,416 |
| Deferred tax expense | 131 | | | | | 131 |
| Changes in operating assets and liabilities | 3,283 | (2) | (7,070) | (2,668) | (6,888) | (13,345) |
| Net cash (used in) provided by operating activities | (4,507) | (126) | 20,575 | 3,161 | (6,888) | 12,215 |
| Investing activities: | | | | | | |
| Capital expenditures for property and equipment | | | (8,573) | (40,685) | | (49,258) |
| Loan repayment from unconsolidated affiliate | | | | 9,225 | | 9,225 |
| Investment in unconsolidated affiliates | | | | (303) | | (303) |
| Proceeds from sale of interest in unconsolidated affiliate | | | | 6,000 | | 6,000 |
| Investment in development | | | 834 | | | 834 |
| Proceeds from sale of assets | | | | 66 | | 66 |
| Decrease (increase) in restricted cash | 159 | | (3,507) | 125 | | (3,223) |
| Net cash provided by (used in) investing activities | 159 | | (11,246) | (25,572) | | (36,659) |
| Financing activities: | | | | | | |
| Principal payments on long-term debt | | | (5,317) | (2,714) | | (8,031) |
| Proceeds from issuance of long-term debt | | | 95 | 44,068 | 6,888 | 51,051 |
| Payment of loan costs | (218) | | (5,149) | (6,527) | | (11,894) |
| Advances from consolidating entities, net | 4,827 | 8,385 | (1,275) | (11,937) | | |
| Net cash provided by (used in) financing activities | 4,609 | 8,385 | (11,646) | 22,890 | 6,888 | 31,126 |
| Net increase (decrease) in cash and cash equivalents | 261 | 8,259 | (2,317) | 479 | | 6,682 |
| Cash and cash equivalents, beginning of period | 4,762 | 6,279 | 727 | 2,463 | | 14,231 |
| Cash and cash equivalents, end of period | \$ 5,023 | \$ 14,538 | \$ (1,590) | \$ 2,942 | \$ | \$ 20,913 |

Table of Contents**17. QUARTERLY FINANCIAL DATA (UNAUDITED)**

The following tables set forth certain items included in our consolidated financial statements for each quarter of the years ended December 31, 2011 and 2010.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| 2011: | | | | |
| Total Revenues | \$ 71,885 | \$ 75,725 | \$ 83,551 | \$ 65,547 |
| Net operating income (loss) | 3,747 | 4,894 | 13,192 | (263) |
| Net (loss) income attributable to Great Wolf Resorts, Inc. | (5,974) | (6,831) | 1,515 | (14,373) |
| Basic (loss) income per common share | \$ (0.19) | \$ (0.22) | \$ 0.05 | \$ (0.46) |
| Diluted (loss) income per common share | \$ (0.19) | \$ (0.22) | \$ 0.05 | \$ (0.46) |

We recorded a gain on sale related to the sale of our Blue Harbor Resort in Sheboygan, WI in the first quarter of 2011 of \$6,667.

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| 2010: | | | | |
| Total Revenues | \$ 68,843 | \$ 66,605 | \$ 77,918 | \$ 62,594 |
| Net operating income (loss) | 412 | (194) | 10,121 | (21,820) |
| Net loss attributable to Great Wolf Resorts, Inc. | (8,065) | (12,760) | (993) | (29,191) |
| Basic loss per common share | \$ (0.26) | \$ (0.41) | \$ (0.03) | \$ (0.95) |
| Diluted loss per common share | \$ (0.26) | \$ (0.41) | \$ (0.03) | \$ (0.95) |

We recorded an asset impairment loss in the fourth quarter of 2010 of \$18,741.

The sum of the basic and diluted (loss) earnings per share for the four quarters may differ from the annual (loss) earnings per share due to the required method of computing the weighted average number of shares in the respective periods.

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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.

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 2011. In making this evaluation, we necessarily applied our judgment in assessing the costs and benefits of such controls and procedures, which, by their nature, can provide only reasonable assurance about management's control objectives. You should note that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and we cannot assure you that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote. Based upon the foregoing evaluation, our Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures were effective and operating to provide at the reasonable assurance level that information we are required to disclose in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in the rules and forms of the SEC, and to provide reasonable assurance that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions about required disclosure.

Changes in Internal Control

There have been no changes in our internal controls over financial reporting during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

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;

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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 and concluded that our internal control over financial reporting was effective as of December 31, 2011.

Conclusion

Management has concluded that, as of December 31, 2011, our internal control over financial reporting was effective.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by Grant Thornton LLP, an independent registered public accounting firm, as stated in their report which is included herein.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

Great Wolf Resorts, Inc.

We have audited Great Wolf Resorts, Inc.'s (a Delaware Corporation) and subsidiaries (the Company) internal control over financial reporting as of December 31, 2011, 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 Report of Management 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 a 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 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 its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of 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, 2011, 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 balance sheets as of December 31, 2011 and 2010, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 23, 2012, expressed an unqualified opinion.

/s/ GRANT THORNTON LLP
Milwaukee, Wisconsin

February 23, 2012

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ITEM 9B. *OTHER INFORMATION*

None.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICER AND CORPORATE GOVERNANCE

This information is hereby incorporated by reference to our 2012 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 2012 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 2012 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 2012 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 2012 Proxy Statement (under the heading Relationship With Independent Public Accountants).

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PART IV

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.

Table of Contents**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: February 23, 2012

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.

| Signature | Title | Date |
|---|--|-------------------|
| /s/ KIMBERLY K. SCHAEFER Kimberly K. Schaefer | Chief Executive Officer (Principal Executive Officer) and Director | February 23, 2012 |
| /s/ JAMES A. CALDER James A. Calder | Chief Financial Officer (Principal Financial and Accounting Officer) | February 23, 2012 |
| /s/ JOSEPH V. VITTORIA Joseph V. Vittoria | Chairman of the Board and Director | February 23, 2012 |
| /s/ ELAN BLUTINGER Elan Blutinger | Director | February 23, 2012 |
| /s/ RANDY L. CHURCHEY Randy L. Churchey | Director | February 23, 2012 |
| /s/ EDWARD H. RENSI Edward H. Rensi | Director | February 23, 2012 |
| /s/ HOWARD A. SILVER Howard A. Silver | Director | February 23, 2012 |

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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.

| Exhibit | |
|----------------|---|
| Number | Description |
| 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) |
| 4.4 | Junior Subordinated Indenture, dated as of June 15, 2007, between Great Wolf Resorts, Inc. and Wells Fargo Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed June 19, 2007) |
| 4.5 | Amended and Restated Trust Agreement, dated as of June 15, 2007, by and among Great Wolf Resorts, Inc., as depositor, Wells Fargo Bank, N.A., as property trustee, Wells Fargo Delaware Trust Company, as Delaware trustee, and James A. Calder, Alex P. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed June 19, 2007) |
| 4.6 | Note Purchase Agreement dated as of March 30, 2010, by and among (i) GWR Operating Partnership, L.L.L.P., a Delaware limited liability limited partnership ("GWR OP"), and Great Wolf Finance Corp., a Delaware corporation, (ii) Mason Family Resorts, LLC, Great Wolf Lodge of Grapevine, LLC and Great Wolf Williamsburg SPE, LLC, (iii) Great Wolf Resorts, Inc. and GWR OP General Partner, LLC, a Delaware limited liability company and certain other direct and indirect subsidiaries of GWR OP; and (iv) Deutsche Bank Securities, Inc., Banc of America Securities, LLC, Wells Fargo Securities, LLC and Credit Agricole Securities (USA) Inc. (incorporated herein by reference to Exhibit 10.27 to the Company's Quarterly Report on Form 10-Q filed May 5, 2010) |
| 4.7 | Indenture governing the 10.875% First Mortgage Notes due 2017, dated as of April 7, 2010, by and among the Company and Great Wolf Finance as co-obligors, the guarantors named therein, and U.S. Bank National Association, as trustee (incorporated herein by reference to Exhibit 10.28 to the Company's Quarterly Report on Form 10-Q filed May 5, 2010). |
| 4.8 | Security Agreement, dated as of April 7, 2010, by and among the loan parties from time to time party thereto and U.S. Bank National Association, as collateral agent (incorporated herein by reference to Exhibit 4.4 to the Company's Registration Statement on Form S-4 filed September 16, 2010) |

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Exhibit

| Number | Description |
|---------------|--|
| 4.9 | Open-End Mortgage, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of April 7, 2010, from Mason Family Resorts, LLC, as Mortgagor to U.S. Bank National Association, in its capacity as Collateral Agent (incorporated herein by reference to Exhibit 4.5 to the Company's Registration Statement on Form S-4 filed September 16, 2010) |
| 4.10 | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of April 7, 2010, from Great Wolf Lodge of Grapevine, LLC, as Trustor to Peter S. Graf, as Mortgaged Property Trustee for the benefit of, U.S. Bank National Association, in its capacity as Collateral Agent, as Beneficiary (incorporated herein by reference to Exhibit 4.6 to the Company's Registration Statement on Form S-4 filed September 16, 2010) |
| 4.11 | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing, dated as of April 7, 2010, from Great Wolf Williamsburg SPE, LLC, as Trustor to Craig A. Johnson, as Mortgaged Property Trustee for the benefit of, U.S. Bank National Association, in its capacity as Collateral Agent, as Beneficiary (incorporated herein by reference to Exhibit 4.7 to the Company's Registration Statement on Form S-4 filed September 16, 2010) |
| 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 | 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) |
| 10.3+ | Employment Agreement between Great Wolf Resorts, Inc., and Kimberly Schaefer, dated December 13, 2004 |
| 10.4+ | Employment Agreement between Great Wolf Resorts, Inc. and James Calder, dated December 13, 2004 |
| 10.5+ | Employment Agreement between Great Wolf Resorts, Inc. and Timothy Black, dated March 20, 2009 |
| 10.6+ | First Amendment to Employment Agreement between Great Wolf Resorts, Inc. and Timothy Black, dated December 16, 2009 |
| 10.7 | 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 Company's Registration Statement on Form S-1 filed January 21, 2005) |
| 10.8 | 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) |
| 10.9 | 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) |
| 10.10 | 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) |
| 10.11 | 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) |
| 10.12 | 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) |
| 10.13* | Form of Officers Change of Control Severance Agreement |
| 10.14 | 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) |

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| Exhibit | |
|----------------|--|
| Number | Description |
| 10.15 | 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) |
| 10.16 | 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). |
| 10.17 | Fifth Amendment to Lease, dated January 22, 2009, between the registrant and Hovde Building, LLC, (incorporated herein by reference to the Company's Current Report on Form 8-K filed January 28, 2009). |
| 10.18 | Loan Agreement by and among Great Wolf Lodge of the Carolinas, LLC (as borrower), Crédit Agricole Corporate and Investment Bank (as a lender), Deutsche Bank Trust Company Americas (as a lender), Deutsche Bank Securities Inc. (as syndication agent), and Crédit Agricole Corporate and Investment Bank (as agent), dated as of July 15, 2011 (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed November 4, 2011). |
| 12.1* | Statement of Computation of Ratios of Earnings of Fixed Charges. |
| 21.1* | List of Subsidiaries |
| 23.1* | Consent of Grant Thornton 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 |
| 101.INS^ | XBRL Instance Document |
| 101.SCH^ | XBRL Taxonomy Extension Schema Document |
| 101.CAL^ | XBRL Taxonomy Calculation Linkbase Document |
| 101.LAB^ | XBRL Taxonomy Label Linkbase Document |
| 101.PRE^ | XBRL Taxonomy Presentation Linkbase Document |

* 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.

^ Submitted electronically with this report.