Great Wolf Resorts, Inc.
Form 10-Q
November 04, 2011
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 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)

Delaware	**51-0510250**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
525 Junction Road, Suite 6000 South	
Madison, Wisconsin 53717	**53717**
(Address of principal executive offices)	**(Zip Code)**

(608) 662-4700

(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 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.

Large accelerated filer ¨	Accelerated filer x
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 x

The number of shares outstanding of the issuer s common stock was 32,562,073 as of November 4, 2011.

Table of Contents

Great Wolf Resorts, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended September 30, 2011

INDEX

	Page No.
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements (unaudited)	4
Condensed Consolidated Balance Sheets as of September 30, 2011 and December 31, 2010	4
Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010	5
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	32
Item 3. Quantitative and Qualitative Disclosures About Market Risk	51
Item 4. Controls and Procedures	52
PART II. OTHER INFORMATION	
Item 1. Legal Proceedings	53
Item 1A. Risk Factors	53
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	53
Item 3. Defaults Upon Senior Securities	53
Item 4. [Removed and Reserved]	53
Item 5. Other Information	53
Item 6. Exhibits	53
Signatures	54

Table of Contents

FORWARD-LOOKING STATEMENTS

Some of the statements contained or that may be included in this report or in 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 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 financing needs, are forward-looking statements. Those statements include statements regarding our intent, belief or current expectations and those of the 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, believes, estimates, expects, plans, intends, 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 market, changes in family vacation patterns and consumer spending habits, regional or national economic downturns or other economic disruptions, 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 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 and 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. Further descriptions of these risks, uncertainties, and other matters can be found in our annual report and other reports filed from time to time with the SEC, including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2010. We caution that the foregoing list of important factors is not complete, and we assume no obligation to update any forward-looking statement that we may make.

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 otherwise 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.

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

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

	September 30, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,532	$ 36,988
Escrows	3,841	1,283
Accounts receivable, net of allowance for doubtful accounts of $6 and $13	4,137	3,278
Accounts receivable affiliate	2,514	3,764
Inventory	7,148	6,871
Other current assets	10,073	4,619
Total current assets	62,245	56,803
Property and equipment, net	586,401	623,958
Investments in and advances to affiliates	24,977	25,131
Other assets	29,470	38,649
Intangible assets	26,690	26,697
Total assets	$ 729,783	$ 771,238
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 67,841	$ 70,083
Accounts payable	3,978	8,499
Accounts payable affiliate	9	4
Accrued interest payable	14,241	8,085
Accrued expenses	22,397	20,434
Advance deposits	9,311	7,472
Other current liabilities	5,382	7,416
Total current liabilities	123,159	121,993
Mortgage debt	369,110	390,289
Other long-term debt	80,545	91,926
Deferred compensation liability	1,361	1,260
Total liabilities	574,175	605,468
Commitments and contingencies		
Great Wolf Resorts stockholders equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; 32,566,573 and 32,339,125 shares issued and outstanding	326	323
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in-capital	404,094	402,952
Accumulated deficit	(248,586)	(237,296)
Deferred compensation	(200)	(200)

Total Great Wolf Resorts, Inc. stockholders equity	155,634	165,779
Noncontrolling interest	(26)	(9)
Total equity	155,608	165,770
Total liabilities and equity	$ 729,783	$ 771,238

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Revenues:				
Rooms	$ 50,340	$ 45,643	$ 137,358	$ 124,842
Food and beverage	12,829	12,023	36,020	34,415
Other	12,920	12,726	35,638	32,385
Management and other fees	912	917	2,319	2,111
Management and other fees affiliates	957	900	2,984	2,880
	77,958	72,209	214,319	196,633
Other revenue from managed properties	2,969	2,984	8,751	8,555
Other revenue from managed properties affiliates	2,624	2,725	8,091	8,178
Total revenues	83,551	77,918	231,161	213,366
Operating expenses by department:				
Rooms	6,676	6,153	19,299	17,709
Food and beverage	9,318	8,641	27,067	25,294
Other	9,743	9,261	28,305	25,535
Other operating expenses:				
Selling, general and administrative	15,356	15,833	49,261	47,961
Property operating costs	8,544	8,485	25,824	24,897
Depreciation and amortization	14,799	13,715	41,362	44,879
Loss on disposition of assets	330		1,368	19
	64,766	62,088	192,486	186,294
Other expenses from managed properties	2,969	2,984	8,751	8,555
Other expenses from managed properties affiliates	2,624	2,725	8,091	8,178
Total operating expenses	70,359	67,797	209,328	203,027
Net operating income	13,192	10,121	21,833	10,339
Investment income affiliates	(220)	(267)	(682)	(832)
Interest income	(50)	(58)	(156)	(488)
Interest expense	11,969	12,228	36,174	33,332
Income (loss) from continuing operations before income taxes and equity in income of unconsolidated affiliates	1,493	(1,782)	(13,503)	(21,673)
Income tax expense	39	62	5,175	421
Equity in income of unconsolidated affiliates, net of tax	(184)	(46)	(667)	(69)
Net income (loss) from continuing operations	1,638	(1,798)	(18,011)	(22,025)
Discontinued operations, net of tax	105	(740)	(6,704)	(182)
Net income (loss)	1,533	(1,058)	(11,307)	(21,843)
Net loss (income) attributable to noncontrolling interest, net of tax	18	(65)	(17)	(25)

Net income (loss) attributable to Great Wolf Resorts, Inc.	$ 1,515	$ (993)	$ (11,290)	$ (21,818)
Income (loss) per share of common stock basic and diluted:				
Income (loss) from continuing operations, net of net loss (income) attributable to noncontrolling interest, net of tax	$ 0.05	$ (0.05)	$ (0.58)	$ (0.71)
Income from discontinued operations, net of tax	0.00	$ 0.02	$ 0.22	$ 0.01
Basic and diluted income (loss) per common share	$ 0.05	$ (0.03)	$ (0.36)	$ (0.70)
Weighted average common shares outstanding:				
Basic	31,372,496	31,035,048	31,299,375	30,957,698
Diluted	32,275,928	31,035,048	31,299,375	30,957,698

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; dollars in thousands)

	Nine months ended September 30,	
	2011	**2010**
Operating activities:		
Net loss	$ (11,307)	$ (21,843)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	41,463	44,936
Bad debt expense	38	205
Non-cash employee compensation and professional fees expense	1,638	1,606
Loss on disposition of assets	1,368	19
Gain on disposition of property included in discontinued operations	(6,667)	
Equity in income of unconsolidated affiliates	(653)	(68)
Deferred tax expense (benefit)	4,380	(366)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(3,207)	(1,905)
Accounts payable, accrued expenses and other liabilities	216	9,929
Net cash provided by operating activities	27,269	32,513
Investing activities:		
Capital expenditures for property and equipment	(7,720)	(7,626)
Loan repayment from unconsolidated affiliates	807	1,225
Investment in affiliate		(8)
Investment in development	(316)	(498)
Proceeds from the sale of a discontinued operation	4,200	
Proceeds from sale of assets	2	15
Cash acquired in acquisition of Creative Kingdoms, LLC		324
(Increase) decrease in restricted cash	(1,910)	4,223
Net cash used in investing activities	(4,937)	(2,345)
Financing activities:		
Principal payments on long-term debt	(79,239)	(216,414)
Proceeds from issuance of long-term debt	56,000	219,337
Payment of loan costs	(1,549)	(10,901)
Net cash used in financing activities	(24,788)	(7,978)
Net (decrease) increase in cash and cash equivalents	(2,456)	22,190
Cash and cash equivalents, beginning of period	36,988	20,913
Cash and cash equivalents, end of period	$ 34,532	$ 43,103
Supplemental Cash Flow Information:		
Cash paid for interest, net of capitalized interest	$ 30,095	$ 22,508
Cash paid for income taxes, net of refunds	$ 662	$ 523
Non-cash items:		

Loan cost accruals	$	$ 1,238
Conversion of note receivable and accrued interest to equity investment	$	$ 9,963
Transfer of fixed assets to inventory	$ 1,883	$

See accompanying notes to the condensed consolidated financial statements.

Table of Contents

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited; dollars in thousands, except share and per share amounts)

1. ORGANIZATION

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.

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 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 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. 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 have 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 September 30, 2011, we operated, managed and/or had 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	Number of Condo Units (1)	Indoor Entertainment Area (2) (approx. sq. ft.)
Wisconsin Dells, WI (3)		1997	308	77	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) Condominium units are individually owned by third parties and are managed by us.
(2) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children s activity room, family tech center, MagiQuest® (an interactive game attraction) and fitness room, as well as our spa in the resorts that have such amenities.
(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.

Table of Contents

(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 September 30, 2011 and each of those five properties had total revenues equal to ten percent or more of our total revenues for the three and nine months ended September 30, 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) own a 51% interest in the joint venture, and we own a 49% interest. We operate the property and license the Great Wolf Lodge brand to the joint venture under long-term agreements through April 2057, subject to earlier termination in certain situations. The joint venture leases the land for the resort from the United States Department of the Interior, which is trustee for Chehalis.

On March 24, 2011 we sold our Blue Harbor Resort 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General We have prepared these unaudited condensed consolidated interim financial statements according to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, we have omitted certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP). The December 31, 2010 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. These interim financial statements should be read in conjunction with the financial statements, accompanying notes and other information included in our Annual Report on Form 10-K for the year ended December 31, 2010.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the financial condition and results of operations and cash flows for the periods presented. The preparation of financial statements in accordance with GAAP requires us to make estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Our actual results could differ from those estimates. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

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

On our condensed consolidated balance sheet, we have reclassified and presented as a separate line item accrued interest payable, which was previously included with accrued expenses;

As a result of the sale of our Blue Harbor Resort, we have included the operations and gain on sale of this resort in discontinued operations in our condensed consolidated statements of operations; and

On our condensed consolidated statement 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.

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

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 units 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 have recorded $1,366 of goodwill. Goodwill is included within intangible assets on our condensed consolidated balance sheet.

Table of Contents

	September 30, 2011	December 31, 2010
Goodwill related to the acquisition of the majority interest in CK	$ 1,366	$ 1,366
	$ 1,366	$ 1,366

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

Discontinued Operations We record the results of the operations of an entity that has been disposed of as a discontinued operation in the consolidated statements of operations when the operations and cash flows of the entity have been eliminated from the ongoing operations and we do not have any significant continuing involvement in the operations of the entity after the disposal transaction. During the three months ended March 31, 2011 we disposed of our Blue Harbor Resort property and have included that property s operations and gain on sale in discontinued operations for all periods presented. The operations of Blue Harbor Resort were formerly included in our Resort Ownership/Operation segment.

Income Taxes At the end of each interim reporting period, we estimate the effective tax rate expected to be applicable for the full fiscal year. We use that estimated effective tax rate in providing for income taxes on a year-to-date basis. We account for the tax effect of significant unusual or extraordinary items in the period in which they occur. We account for major changes in our valuation allowance within continuing operations in the period in which they occur. During the nine months ended September 30, 2011, we increased our valuation allowance by $4,772 as a result of the sale of our Blue Harbor Resort in Sheboygan, Wisconsin. The increase was due to uncertainties related to our ability to utilize some of our deferred tax assets generated as a result of that sale, primarily consisting of certain net operating loss carryforwards, before they expire.

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.

The following summarizes significant financial information regarding our segments:

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Three months ended September 30, 2011				
Revenues	$ 74,194	$ 7,462	$ 1,895	$ 83,551
Depreciation and amortization	(14,045)		(754)	(14,799)
Net operating income	11,243	1,868	81	13,192
Investment income - affiliates				(220)
Interest income				(50)
Interest expense				11,969
Income from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ 1,493
Additions to long-lived assets	2,400		146	$ 2,546

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Nine months ended September 30, 2011				
Revenues	$ 204,655	$ 22,145	$ 4,361	$ 231,161
Depreciation and amortization	(39,083)		(2,279)	(41,362)
Net operating income (loss)	19,086	5,303	(2,556)	21,833
Investment income - affiliates				(682)
Interest income				(156)
Interest expense				36,174
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (13,503)
Additions to long-lived assets	7,362		358	$ 7,720
Total assets	611,112	927	117,744	$ 729,783

Table of Contents

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Three months ended September 30, 2010				
Revenues	$ 67,948	$ 7,526	$ 2,444	$ 77,918
Depreciation and amortization	(12,635)		(1,080)	(13,715)
Net operating income (loss)	8,885	1,817	(581)	10,121
Investment income - affiliates				(267)
Interest income				(58)
Interest expense				12,228
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (1,782)
Additions to long-lived assets	911		486	$ 1,397

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Nine months ended September 30, 2010				
Revenues	$ 188,330	$ 21,724	$ 3,312	$ 213,366
Depreciation and amortization	(42,940)		(1,939)	(44,879)
Net operating income (loss)	8,368	4,991	(3,020)	10,339
Investment income - affiliates				(832)
Interest income				(488)
Interest expense				33,332
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (21,673)
Additions to long-lived assets	6,701		925	$ 7,626
Total assets	676,400	1,863	125,089	$ 803,352

The Other column in the table includes items that do not constitute a reportable segment and represent corporate-level activities and the activities of other operations not included in the 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.

Recent Accounting Pronouncements In July 2010, the FASB issued guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance requires new disclosures that will require companies to provide more information about the credit quality of their financing receivables in the disclosures to the financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. This guidance is effective for interim or annual financial reporting periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

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 is 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 condensed consolidated financial statements.

Table of Contents

In December 2010, the FASB issued guidance to address differences in the ways entities have interpreted disclosures about pro forma revenue and earnings in a business combination. This guidance states that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance is effective prospectively for business combinations whose acquisition date is at or after the beginning of the first annual reporting period on or after December 15, 2010. The adoption of this guidance did not have a material impact on our condensed 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 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.

3. INVESTMENT IN AFFILIATES

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 joint venture is a limited liability company. We are a member of that limited liability company with a 49% ownership interest. At September 30, 2011, the joint venture had aggregate outstanding indebtedness to third parties of $96,014. As of September 30, 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.

Summary financial data for this joint venture is as follows:

Balance sheet data:	September 30, 2011	December 31, 2010
Total assets	$ 137,574	$ 142,329
Total liabilities	$ 106,064	$ 112,307

	Three months ended		Nine months ended	
	September 30,		September 30,	
Operating data:	2011	2010	2011	2010
Revenue	$ 10,652	$ 10,531	$ 33,317	$ 32,307
Operating expenses	$ (9,156)	$ (9,120)	$ (28,395)	$ (28,186)
Net income	$ 377	$ 146	$ 1,488	$ 295

We have a receivable from the joint venture of $2,514 and $3,764 that relates primarily to accrued preferred equity returns and management fees as of September 30, 2011 and December 31, 2010, respectively. We had a payable to the joint venture of $9 and $4 as of September 30, 2011 and December 31, 2010, respectively.

4. VARIABLE INTEREST ENTITIES

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. 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 our review of the design of the entity, its organization structure including decision-making ability, and relevant financial agreements. We also use our qualitative analyses to determine if we must consolidate a variable interest entity as the primary beneficiary.

The following summarizes our analyses of entities in which we have a variable interest and that we have concluded are variable interest entities:

We have an equity investment in the joint venture that owns the Great Wolf Lodge resort in Grand Mound, Washington. We manage that resort and we have concluded that the joint venture is a variable interest entity because the management fees we receive represent a variable interest. The management contract, however, does not provide us with power to direct the activities that most significantly impact the economic performance of the joint venture. As we lack the ability to direct the activities that most significantly affect the resort s performance, we are not the primary beneficiary of the joint venture and, therefore, we do not consolidate this entity at September 30, 2011. During the three and nine months ended September 30, 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 September 30, 2011 is limited to the carrying value of our equity investments in the joint venture as of that date. The total carrying values of those items on our balance sheet as of September 30, 2011 is $24,977 and are included in the investments in and advances to affiliates line item on our condensed consolidated balance sheet.

Table of Contents

We have equity investments in two subsidiaries which are Delaware statutory trusts, both of which were used to issue trust preferred securities through private offerings. We have concluded that both of these trusts are variable interest entities. As we lack the ability to direct the activities that most significantly impact the trusts performance, we are not the primary beneficiary and therefore, we do not consolidate these entities at September 30, 2011. During the three and nine months ended September 30, 2011 and 2010, we did not provide any support to these entities that we were not contractually obligated to do so. Our maximum exposure to loss related to our involvement with these entities as of September 30, 2011 is limited to the carrying value of our equity investments in the entities as of that date. The total carrying values of those items on our balance sheet as of September 30, 2011 is $2,420 and are included in the other assets line item on our condensed consolidated balance sheet.

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 nine 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. SHARE-BASED COMPENSATION

We recognized share-based compensation expense of $507 and $1,638, net of estimated forfeitures, for the three and nine months ended September 30, 2011, respectively. The total income tax expense recognized related to share-based compensation was $11 and $36 for the three and nine months ended September 30, 2011, respectively.

We recognized share-based compensation expense of $545 and $1,606, net of estimated forfeitures, for the three and nine months ended September 30, 2010, respectively. The total income tax expense recognized related to share-based compensation was $10 and $31 for the three and nine months ended September 30, 2010, 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 September 30, 2011, total unrecognized compensation cost related to share-based compensation awards was $2,179, which we expect to recognize over a weighted average period of approximately 2.6 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 September 30, 2011, there were 341,414 shares available for future grants under the Plan.

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

Stock Options

We have granted non-qualified stock options to purchase our common stock under the Plan at prices equal to the fair market value of the common stock on the grant dates. The exercise price for options granted under the Plan 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 no stock option expense for the three and nine months ended September 30, 2011 or 2010. There were no stock options granted during the three and nine months ended September 30, 2011 or 2010. During the nine months ended September 30, 2011, certain employees surrendered and cancelled 5,500 previously granted stock options.

Table of Contents

A summary of stock option activity during the nine months ended September 30, 2011 is:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Number of shares under option:			
Outstanding at beginning of period	36,000	$ 19.03	4.15 years
Exercised			
Forfeited	(20,500)	$ 20.24	
Outstanding at end of period	15,500	$ 17.44	3.25 years
Exercisable at end of period	15,500	$ 17.44	3.25 years

At September 30, 2011 and 2010, the exercise prices of all of our outstanding and exercisable stock options were above our stock price. Therefore, there was no intrinsic value for our outstanding and exercisable stock options at September 30, 2011 or 2010.

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 and 515,986 market condition share awards during the nine months ended September 30, 2011 and 2010, respectively. We recorded share-based compensation expense of $183 and $572 for the three and nine months ended September 30, 2011, respectively. We recorded share-based compensation expense of $159 and $546 for the three and nine months ended September 30, 2010, respectively.

Of the 2011 market condition shares granted:

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.

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.

83,054 were based on our common stock s absolute performance during 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.

Table of Contents

83,054 were based on our common stock s performance in 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%

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.

91,463 were based on our common stock s absolute performance during 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 in 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.

Table of Contents

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

Dividend yield	
Weighted average, risk free interest rate	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.

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 and 111,020 performance shares during the nine months ended September 30, 2011 and 2010, respectively. Shares granted in 2011 vest over a three year period, 2011-2013; and shares granted in 2010 vest over a three year period, 2010-2012.

The per share fair value of performance shares granted during the nine months ended September 30, 2011 and 2010 was $3.23 and $3.18, respectively, which represents the fair value of our common stock on the grant date. We recorded share-based compensation expense of $71 and $214 for the three and nine months ended September 30, 2011, respectively. We recorded share-based compensation expense of $61 and $183 for the three and nine months ended September 30, 2010, respectively. Since all shares originally granted were not earned, we recorded a reduction in expense of $16 and $9 during the nine months ended September 30, 2011 and 2010, 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 and

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

Table of Contents

Deferred Compensation Awards

Pursuant to their employment arrangements, certain executives received bonuses upon completion of our initial public offering. 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. In 2008, one of the executives who had deferred a bonus payment resigned from our company. As a result, we have reclassified $2,000 previously recorded as deferred compensation to additional paid-in-capital.

We account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded negative share-based compensation expense of $6 and $1, for the three and nine months ended September 30, 2011, respectively. We recorded negative share-based compensation expense of $2 and $5, for the three and nine months ended September 30, 2010, respectively.

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 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.

A summary of non-vested shares activity for the nine months ended September 30, 2011 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares balance at beginning of period	1,163,379	$ 3.12
Granted	292,365	$ 2.76
Forfeited	(42,000)	$ 4.67
Vested	(231,658)	$ 4.14
Non-vested shares balance at end of period	1,182,086	$ 2.77

We recorded share-based compensation expense related to non-vested shares of $259 and $847 for the three and nine months ended September 30, 2011, respectively. We recorded share-based compensation expense related to non-vested shares of $290 and $833 for the three and six ended September 30, 2010, respectively.

Our non-vested shares had an intrinsic value of $373 and $268 at September 30, 2011 and 2010, respectively.

Vested Shares

We have an annual short-term incentive plan for certain employees, in which they are provided 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.

Table of Contents

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 in the nine months ended September 30, 2010 related to 2009 bonus amounts.

In 2011 and 2010, 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 such elections received shares having a market value equal to 125% of the cash they would otherwise receive. Shares issued in lieu of cash fee payments are fully vested upon issuance. We recorded non-cash professional fees expense of $22 and issued 10,118 shares during the nine months ended September 30, 2011, related to these elections to receive shares in lieu of cash. We recorded non-cash professional fees expense of $58 and issued 19,119 shares during the nine months ended September 30, 2010, related to these elections to receive shares in lieu of cash.

7. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2011	December 31, 2010
Land and improvements	$ 57,665	$ 57,665
Building and improvements	417,380	420,316
Furniture, fixtures and equipment	342,908	341,741
Construction in process	710	623
	818,663	820,345
Less accumulated depreciation	(232,262)	(196,387)
Property and equipment, net	$ 586,401	$ 623,958

Depreciation expense for continuing operations was $12,258 and $12,554 for the three months ended September 30, 2011 and 2010, respectively, and $36,655 and $37,132 for the nine months ended September 30, 2011 and 2010, respectively.

8. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2011	December 31, 2010
Mortgage Debt:		
Traverse City/Kansas City mortgage loan	$ 66,016	$ 67,236
Pocono Mountains mortgage loan	93,341	94,274
Concord mortgage loan	56,000	78,147
First mortgage notes (net of discount of $8,429 and $9,578)	221,571	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	23	47
	517,496	552,298
Less current portion of long-term debt	(67,841)	(70,083)

Total long-term debt	$ 449,655	$ 482,215

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 September 30, 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.

Table of Contents

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 twelve-month period ended September 30, 2011, the DSCR for this loan was 1.15, 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 September 30, 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 September 30, 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 $38,959 as of September 30, 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 $66,016 as of September 30, 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 the nine months ended September 30, 2011, we currently expect the properties to generate sufficient cash flow so that our subsidization of debt service, if any, for 2011 will be insignificant to our overall operations. As a result, we currently believe the most likely course of action for 2011 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 September 30, 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.

18

Table of Contents

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 $76,600 under the original loan using the proceeds of the new loan and 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 September 30, 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 at which time the lender 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. The loan requires a minimum DSCR of (i) 1.15 in the first year of the loan (ii) 1.20 in the second year of the loan and (iii) 1.30 thereafter. We were in compliance with all covenants under this loan at September 30, 2011.

In connection with the refinancing transaction, we were required to provide interest rate protection on a portion of the loan amount through the loans 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 any change to interest expense. In connection with this refinancing 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, L.L.L.P. 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 $1,500 in Trust I s common securities, representing 3% of the total capitalization of Trust I.

Trust I used the proceeds of the offering and our investment to purchase from us $51,550 of 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.

Table of Contents

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

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

Issue trusts, like Trust I and Trust III (collectively, the Trusts), are generally variable interests. We have determined that we are not the primary beneficiary under the Trusts, and accordingly we do not include the financial statements of the Trusts in our consolidated financial statements.

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.

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 are as follows:

Through September 30,	
2012	$ 3,542
2013	4,752
2014	57,472
2015	62,053
2016	1,671
Thereafter	396,435
Total	$ 525,925

As discussed above, the Traverse City/Kansas City mortgage loan is classified as a current liability as of September 30, 2011, due to the implementation of a traditional lock-box arrangement, although the loan is not in default and the full principal balance of the loan is not due currently. The future maturities table above reflects future cash principal repayments currently required under the provisions of that loan of $1,717 in 2012, $1,851 in 2013, $1,981 in 2014, $60,467 in 2015.

9. 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). 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.

Table of Contents

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.

The following table summarizes our financial assets using the fair value hierarchy on a recurring basis as of September 30, 2011:

	Level 1	Level 2	Level 3	Total
Interest rate caps	$	$ 102	$	$

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 September 30, 2011, we estimate the total fair value of our long-term debt to be $44,720 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. We estimate our fair value using Level 2 inputs such as quoted market prices or prices quoted from third-party financial institutions. 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 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.

10. EARNINGS PER SHARE

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

The trust that holds the assets to pay obligations under our deferred compensation plan has 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 three and nine months ended September 30, 2011, because the exercise prices of the options were greater than the average market price of the common shares during that period. There were 267,150 and 719,561, shares of common stock that were not included in the computation of diluted earnings per share for the three and nine months ended September 30, 2011, respectively, because the market and/or performance criteria related to these shares had not been met at September 30, 2011.

Table of Contents

Basic and diluted earnings per common share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Income (loss) from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ 1,620	$ (1,733)	$ (17,994)	$ (22,000)
(Loss) income from discontinued operations, net of tax	(105)	740	6,704	182
Net income (loss) attributable to Great Wolf Resorts, Inc.	$ 1,515	$ (993)	$ (11,290)	$ (21,818)
Weighted average common shares outstanding basic	31,372,496	31,035,048	31,299,375	30,957,698
Weighted average common shares outstanding diluted	32,275,928	31,035,048	31,299,375	30,957,698
Income (loss) attributable to loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax per shares basic	$ 0.05	$ (0.05)	$ (0.58)	$ (0.71)
Income attributable to discontinued operations, net of tax basic	0.00	$ 0.02	$ 0.22	$ 0.01
Net income (loss) attributable to Great Wolf Resorts, Inc. per share basic	$ 0.05	$ (0.03)	$ (0.36)	$ (0.70)
Income (loss) attributable to loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax per shares diluted	$ 0.05	$ (0.05)	$ (0.58)	$ (0.71)
Income attributable to discontinued operations, net of tax diluted	0.00	$ 0.02	$ 0.22	$ 0.01
Net income (loss) attributable to Great Wolf Resorts, Inc. per share diluted	$ 0.05	$ (0.03)	$ (0.36)	$ (0.70)

Table of Contents

11. 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 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:

Balance sheet data:	March 23, 2011	December 31, 2010
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 sales transaction on March 23, 2011, we wrote off $5,699 of property and equipment and $11,563 of other long-term debt.

	Nine months ended September 30,	
	2011	2010
Revenues	$ 1,578	$ 6,858
Operating expenses	(1,465)	(6,044)
Gain on sale	6,667	
Interest expense, net of interest income	(76)	(635)
Income tax expense		3
Income from discontinued operations, net of tax	$ 6,704	$ 182

12. SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS

In April 2010, our subsidiaries, GWR Operating Partnership, L.L.L.P 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 condensed consolidating balance sheets of the Company (Parent), the Issuers, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries as of September 30, 2011 and December 31, 2010, the condensed consolidating statements of operations for the three and nine months ended September 30, 2011 and 2010 and the condensed consolidating statements of cash flows for the nine months ended September 30, 2011 and 2010.

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

UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET

September 30, 2011

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 10,047	$ 21,215	$ (1,581)	$ 4,851	$	$ 34,532
Escrows				3,841		3,841
Accounts receivable	362		1,997	1,778		4,137
Accounts receivable - affiliates			455	2,059		2,514
Accounts receivable - consolidating entities	10,542	474,576	528,207	197,154	(1,210,479)	
Inventory			2,650	4,498		7,148
Other current assets	1,179		2,732	6,162		10,073
Total current assets	22,130	495,791	534,460	220,343	(1,210,479)	62,245
Property and equipment, net			336,175	250,226		586,401
Investments in consolidating entities	209,910	277,733			(487,643)	
Investments in and advances to affiliates				24,977		24,977
Other assets	12,825	7,049	7,096	2,500		29,470
Intangible assets	1,365		4,668	20,657		26,690
Total assets	$ 246,230	$ 780,573	$ 882,399	$ 518,703	$ (1,698,122)	$ 729,783
LIABILITIES AND EQUITY						
Current liabilities:						
Current portion of long-term debt	$	$	$ 23	$ 67,818	$	$ 67,841
Accounts payable	7		2,172	1,799		3,978
Accounts payable - affiliates			1	8		9
Accounts payable - consolidating entities	6,222	336,573	697,845	169,839	(1,210,479)	
Accrued interest payable	723	12,506		1,012		14,241
Accrued expenses	502	13	12,975	8,907		22,397
Advance deposits			4,038	5,273		9,311
Other current liabilities	2,597		962	1,823		5,382
Total current liabilities	10,051	349,092	718,016	256,479	(1,210,479)	123,159
Mortgage debt		221,571		147,539		369,110
Other long-term debt	80,545					80,545
Deferred compensation liability			1,361			1,361
Total liabilities	90,596	570,663	719,377	404,018	(1,210,479)	574,175
Commitments and contingencies						
Great Wolf Resorts Inc. stockholders equity:						
Common stock	326					326
Preferred stock						
Additional paid-in-capital	404,094	456,693	163,514	293,179	(913,386)	404,094
Accumulated deficit	(248,586)	(246,783)	(492)	(178,468)	425,743	(248,586)
Deferred compensation	(200)					(200)
Total Great Wolf Resorts, Inc. stockholders equity	155,634	209,910	163,022	114,711	(487,643)	155,634

Noncontrolling interest				(26)		(26)
Total equity	155,634	209,910	163,022	114,685	(487,643)	155,608
Total liabilities and equity	$ 246,230	$ 780,573	$ 882,399	$ 518,703	$ (1,698,122)	$ 729,783

Table of Contents

CONSOLIDATING BALANCE SHEET

December 31, 2010

(Dollars in thousands)

	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
Investments in consolidating entities	210,356	257,151			(467,507)	
Investments 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 interest payable	723	6,253		1,109		8,085
Accrued expenses	287	689	11,534	7,924		20,434
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 Inc. 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, Inc. 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

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three months ended September 30, 2011

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 26,387	$ 23,953	$	$ 50,340
Food and beverage			7,001	5,828		12,829
Other			5,907	7,013		12,920
Management and other fees	183		6,689	5	(5,965)	912
Management and other fees - affiliates			957			957
	183		46,941	36,799	(5,965)	77,958
Other revenue from managed properties			2,969			2,969
Other revenue from managed properties - affiliates			2,624			2,624
Total revenues	183		52,534	36,799	(5,965)	83,551
Operating expenses by department:						
Rooms			4,031	3,654	(1,009)	6,676
Food and beverage			5,063	4,255		9,318
Other			4,585	5,158		9,743
Other operating expenses:						
Selling, general and administrative	654	35	11,928	7,779	(5,040)	15,356
Property operating costs			4,450	4,094		8,544
Depreciation and amortization	38	348	6,420	7,993		14,799
Loss on disposition of assets				330		330
	692	383	36,477	33,263	(6,049)	64,766
Other expenses from managed properties			2,969			2,969
Other expenses from managed properties - affiliates			2,624			2,624
Total operating expenses	692	383	42,070	33,263	(6,049)	70,359
Net operating (loss) income	(509)	(383)	10,464	3,536	84	13,192
Investment income - affiliates				(220)		(220)
Interest income	(48)			(2)		(50)
Interest expense	1,584	6,637	1	3,747		11,969
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(2,045)	(7,020)	10,463	11	84	1,493
Income tax (benefit) expense	(181)		159	61		39
Equity in (income) loss of unconsolidated affiliates, net of tax	(3,379)	(10,399)		(184)	13,778	(184)
Net income (loss) from continuing operations	1,515	3,379	10,304	134	(13,694)	1,638
Discontinued operations, net of tax				21	84	105

Net income (loss)	1,515	3,379	10,304	113	(13,778)	1,533
Net loss attributable to noncontrolling interest, net of tax				18		18
Net income (loss) attributable to Great Wolf Resorts, Inc.	$ 1,515	$ 3,379	$ 10,304	$ 95	$ (13,778)	$ 1,515

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three months ended September 30, 2010

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 24,016	$ 21,627	$	$ 45,643
Food and beverage			6,593	5,430		12,023
Other			5,493	7,233		12,726
Management and other fees	139		6,358	38	(5,618)	917
Management and other fees - affiliates			900			900
	139		43,360	34,328	(5,618)	72,209
Other revenue from managed properties			2,984			2,984
Other revenue from managed properties - affiliates			2,725			2,725
Total revenues	139		49,069	34,328	(5,618)	77,918
Operating expenses by department:						
Rooms			3,725	3,343	(915)	6,153
Food and beverage			4,678	3,963		8,641
Other			4,242	5,019		9,261
Other operating expenses:						
Selling, general and administrative	626	37	11,349	8,359	(4,538)	15,833
Property operating costs			4,229	4,256		8,485
Depreciation and amortization	38	320	6,358	6,999		13,715
Loss on disposition of assets						
	664	357	34,581	31,939	(5,453)	62,088
Other expenses from managed properties			2,984			2,984
Other expenses from managed properties - affiliates			2,725			2,725
Total operating expenses	664	357	40,290	31,939	(5,453)	67,797
Net operating (loss) income	(525)	(357)	8,779	2,389	(165)	10,121
Investment income - affiliates				(267)		(267)
Interest income	(51)	(8)	1			(58)
Interest expense	1,591	6,636	9	3,992		12,228
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(2,065)	(6,985)	8,769	(1,336)	(165)	(1,782)
Income tax expense	(175)		179	55	3	62
Equity in (income) loss of unconsolidated affiliates, net of tax	(897)	(7,882)		(46)	8,779	(46)
Net (loss) income from continuing operations	(993)	897	8,590	(1,345)	(8,947)	(1,798)
Discontinued operations, net of tax				(572)	(168)	(740)

Net (loss) income	(993)	897	8,590	(773)	(8,779)	(1,058)
Net loss attributable to noncontrolling interest, net of tax				(65)		(65)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (993)	$ 897	$ 8,590	$ (708)	$ (8,779)	$ (993)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Nine months ended September 30, 2011

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 69,815	$ 67,543	$	$ 137,358
Food and beverage			19,068	16,952		36,020
Other			16,257	19,381		35,638
Management and other fees	466		18,321	29	(16,497)	2,319
Management and other fees - affiliates			2,984			2,984
	466		126,445	103,905	(16,497)	214,319
Other revenue from managed properties			8,751			8,751
Other revenue from managed properties - affiliates			8,091			8,091
Total revenues	466		143,287	103,905	(16,497)	231,161
Operating expenses by department:						
Rooms			11,280	10,775	(2,756)	19,299
Food and beverage			14,433	12,634		27,067
Other			12,927	15,378		28,305
Other operating expenses:						
Selling, general and administrative	2,192	103	36,417	24,206	(13,657)	49,261
Property operating costs			12,562	13,262		25,824
Depreciation and amortization	115	1,021	19,154	21,072		41,362
Loss on disposition of property			21	1,347		1,368
	2,307	1,124	106,794	98,674	(16,413)	192,486
Other expenses from managed properties			8,751			8,751
Other expenses from managed properties - affiliates			8,091			8,091
Total operating expenses	2,307	1,124	123,636	98,674	(16,413)	209,328
Net operating (loss) income	(1,841)	(1,124)	19,651	5,231	(84)	21,833
Investment income - affiliates				(682)		(682)
Interest income	(145)	(5)		(6)		(156)
Interest expense	4,752	19,909	2	11,511		36,174
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(6,448)	(21,028)	19,649	(5,592)	(84)	(13,503)
Income tax expense	4,396		386	393		5,175
Equity in loss (income) of unconsolidated affiliates, net of tax	446	(20,582)		(667)	20,136	(667)
Net (loss) income from continuing operations	(11,290)	(446)	19,263	(5,318)	(20,220)	(18,011)

Discontinued operations, net of tax				(6,620)	(84)	(6,704)
Net (loss) income	(11,290)	(446)	19,263	1,302	(20,136)	(11,307)
Net loss attributable to noncontrolling interest, net of tax				(17)		(17)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (11,290)	$ (446)	$ 19,263	$ 1,319	$ (20,136)	$ (11,290)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Nine months ended September 30, 2010

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 63,078	$ 61,764	$	$ 124,842
Food and beverage			18,281	16,134		34,415
Other			14,962	17,423		32,385
Management and other fees	364		17,124	50	(15,427)	2,111
Management and other fees - affiliates			2,880			2,880
	364		116,325	95,371	(15,427)	196,633
Other revenue from managed properties			8,555			8,555
Other revenue from managed properties - affiliates			8,178			8,178
Total revenues	364		133,058	95,371	(15,427)	213,366
Operating expenses by department:						
Rooms			10,383	9,830	(2,504)	17,709
Food and beverage			13,493	11,801		25,294
Other			12,200	13,335		25,535
Other operating expenses:						
Selling, general and administrative	2,335	117	35,284	22,788	(12,563)	47,961
Property operating costs			12,200	12,697		24,897
Depreciation and amortization	115	615	23,994	20,155		44,879
Loss on disposition of property			10	9		19
	2,450	732	107,564	90,615	(15,067)	186,294
Other expenses from managed properties			8,555			8,555
Other expenses from managed properties - affiliates			8,178			8,178
Total operating expenses	2,450	732	124,297	90,615	(15,067)	203,027
Net operating (loss) income	(2,086)	(732)	8,761	4,756	(360)	10,339
Investment income - affiliates				(832)		(832)
Interest income	(482)	(10)		4		(488)
Interest expense	4,753	12,830	3,859	11,890		33,332
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(6,357)	(13,552)	4,902	(6,306)	(360)	(21,673)
Income tax (benefit) expense	(365)		465	314	7	421
Equity in loss (income) of unconsolidated affiliates, net of tax	15,826	2,274		(69)	(18,100)	(69)
Net (loss) income from continuing operations	(21,818)	(15,826)	4,437	(6,551)	17,733	(22,025)
Discontinued operations, net of tax				185	(367)	(182)

Net (loss) income	(21,818)	(15,826)	4,437	(6,736)	18,100	(21,843)
Net income attributable to noncontrolling interest, net of tax				(25)		(25)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (21,818)	$ (15,826)	$ 4,437	$ (6,711)	$ 18,100	$ (21,818)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine months ended September 30, 2011

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:						
Net (loss) income	$ (11,290)	$ (446)	$ 19,263	$ 1,302	$ (20,136)	$ (11,307)
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	115	1,021	19,157	21,170		41,463
Bad debt expense			3	35		38
Non-cash employee compensation and professional fees expense			1,638			1,638
Loss on disposition of assets			21	1,347		1,368
Gain on disposition of property included in discontinued operations				(6,667)		(6,667)
Equity in loss (income) of unconsolidated affiliates	446	(20,582)		(653)	20,136	(653)
Deferred tax expense	4,380					4,380
Changes in operating assets and liabilities	(547)	5,577	(2,339)	(5,682)		(2,991)
Net cash (used in) provided by operating activities	(6,896)	(14,430)	37,743	10,852		27,269
Investing activities:						
Capital expenditures for property and equipment			(2,883)	(4,837)		(7,720)
Loan repayment from unconsolidated affiliates				807		807
Investment in development			(316)			(316)
Proceeds from sale of a discontinued operation				4,200		4,200
Proceeds from sale of assets				2		2
Increase in restricted cash	(1,001)			(909)		(1,910)
Net cash used in investing activities	(1,001)		(3,199)	(737)		(4,937)
Financing activities:						
Principal payments on long-term debt		1,149	(24)	(80,364)		(79,239)
Proceeds from issuance of long-term debt				56,000		56,000
Payment of loan costs	(107)	(122)		(1,320)		(1,549)
Advances from consolidating entities, net	8,004	10,450	(35,773)	17,319		
Net cash provided by (used in) financing activities	7,897	11,477	(35,797)	(8,365)		(24,788)
Net (decrease) increase in cash and cash equivalents		(2,953)	(1,253)	1,750		(2,456)
Cash and cash equivalents, beginning of period	10,047	24,168	(328)	3,101		36,988
Cash and cash equivalents, end of period	$ 10,047	$ 21,215	$ (1,581)	$ 4,851	$	$ 34,532

30

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Nine months ended September 30, 2010

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:						
Net (loss) income	$ (21,818)	$ (15,826)	$ 4,437	$ (6,736)	$ 18,100	$ (21,843)
Adjustment to reconcile net (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	115	615	23,994	20,212		44,936
Bad debt expense			140	65		205
Non-cash employee compensation and professional fees expense			1,606			1,606
Loss on disposition of property			10	9		19
Equity in losses (income) of affiliates	15,826	2,274		(68)	(18,100)	(68)
Deferred tax benefit	(366)					(366)
Changes in operating assets and liabilities	(1,122)	14,136	(3,832)	(1,158)		8,024
Net cash (used in) provided by operating activities	(7,365)	1,199	26,355	12,324		32,513
Investing activities:						
Capital expenditures for property and equipment			(3,278)	(4,348)		(7,626)
Loan repayment from unconsolidated affiliates				1,225		1,225
Investment in affiliates				(8)		(8)
Investment in development			(498)			(498)
Proceeds from sale of assets				15		15
Cash acquired in acquisition of Creative Kingdoms, LLC				324		324
Decrease in restricted cash			4,431	(208)		4,223
Net cash provided by (used in) investing activities			655	(3,000)		(2,345)
Financing activities:						
Principal payments on long-term debt		741	(214,858)	(2,297)		(216,414)
Proceeds from issuance of long-term debt		219,298		39		219,337
Payment of loan costs	49	(9,079)	(1,836)	(35)		(10,901)
Advances from consolidating entities, net	12,336	(194,019)	187,613	(5,930)		
Net cash provided by (used in) financing activities	12,385	16,941	(29,081)	(8,223)		(7,978)
Net increase (decrease) in cash and cash equivalents	5,020	18,140	(2,071)	1,101		22,190
Cash and cash equivalents, beginning of period	5,023	14,538	(1,590)	2,942		20,913
Cash and cash equivalents, end of period	$ 10,043	$ 32,678	$ (3,661)	$ 4,043	$	$ 43,103

31

Table of Contents

ITEM 2. ***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 is a discussion and analysis of the financial condition, results of operations and liquidity and capital resources. The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the Forward-Looking Statements section that immediately follows the table of contents. 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, our and Company used in this Management s Discussion and Analysis of Financial Condition and R of Operations refer to Great Wolf Resorts, Inc. and its consolidated subsidiaries.

Business. We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to, destination family resorts featuring indoor waterparks and other family-oriented entertainment activities based on the number of resorts in operation. 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 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. 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 have 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 and snack bars, ice cream shop and confectionery, full-service adult spa, kid spa, game arcade, gift shop, miniature golf, interactive game attraction, family tech center and meeting space. We also generate revenues from licensing arrangements, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

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 1,970 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.

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 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. We continue to license the Blue Harbor Resort and related trade names to Claremont at no fee. As of March 24, 2011, we no longer operated this resort or managed the condominium units there.

The following table presents an overview of our portfolio of resorts. As of September 30, 2011, we operated, managed and/or had 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.

32

Table of Contents

	Ownership Percentage	Opened	Number of Guest Suites	Number of Condo Units (1)	Indoor Entertainment Area (2) (approx. sq. ft.)
Wisconsin Dells, WI (3)		1997	308	77	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) Condominium units are individually owned by third parties and are managed by us.

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

(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 September 30, 2011 and each of those five properties had total revenues equal to ten percent or more of our total revenues for the three and nine months ended September 30, 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) own a 51% interest in the joint venture, and we own a 49% interest. We operate the property and license the Great Wolf Lodge brand to the joint venture under long-term agreements through April 2057, subject to earlier termination in certain situations. The joint venture leases the land for the resort from the United States Department of the Interior, which is trustee for Chehalis.

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 the 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 47properties, 11 are Great Wolf Lodges.

Table of Contents

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 relatively less affected by changes in economic cycles than more expensive vacation options, 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 and other family entertainment attractions in 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, acquire, license and/or operate in the future may require significant industry knowledge and/or substantial capital resources. Our external growth strategy going forward is to seek joint venture, licensing and management opportunities. We expect each of the 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 to be a sole or majority owner of the new resort.

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

- leveraging our competitive advantages and increasing domestic geographic diversification through a licensing-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 include:

- attracting suitable joint venture partners;

development, acquisition, conversion and/or licensing of properties;

increases in costs of constructing, operating and maintaining resorts we own or manage;

competition from other entertainment companies, both within and outside our industry segment;

external economic risks, including family vacation patterns and trends; and

the other risks described in our annual report on Form 10-K under Item 1A, Risk Factors. For a complete discussion of forward-looking statements, see the Forward-Looking Statements section that immediately follows the table of contents.

Table of Contents

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 substantial 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 generally led to a decrease in credit available to consumers and a related decrease in consumer confidence and consumer discretionary spending. These trends generally continued through mid-2011 as consumers have experienced several negative economic impacts over the past few years, 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.

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 September 30, 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 feel the effects of the regional economic declines experienced over the past several years and to produce operating results below what they had produced prior to 2008.

Table of Contents

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 and building 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 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 the remainder of 2011.

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, and depreciation and amortization (EBITDA). Rooms revenue accounted for approximately 68% of our total consolidated resort revenue for the nine months ended September 30, 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 customer loyalty and enhance our ability to charge higher rates in peak periods,
- structuring rates to allow us to offer our previous guests the best rate while simultaneously working with a promotional partner or offering internet specials,
- monitoring sales of room types daily to evaluate the effectiveness of offered discounts, and

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

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

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

occupancy;

Table of Contents

- 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
- 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.
- 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 nine months ended September 30, 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 result generally, in a greater increase in operating cash flow.

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

Critical Accounting Policies and Estimates

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

Table of Contents

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 units 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 have recorded $1,366 of goodwill. Goodwill is included within intangible assets on our condensed consolidated balance sheet.

	September 30, 2011	December 31, 2010
Goodwill related to the acquisition of the majority interest in CK	$ 1,366	$ 1,366
	$ 1,366	$ 1,366

Noncontrolling Interests We record the non-owned equity interests of our consolidated subsidiaries as a separate component of our consolidated equity on our condensed consolidated balance sheet. The net earnings attributable to the controlling and noncontrolling interests are included on the face of our statements of operations. Due to our acquisition of CK in June 2010 we have a consolidated subsidiary with a noncontrolling interest as of September 30, 2011.

Discontinued Operations We record the results of the operations of an entity that has been disposed of as a discontinued operation in the consolidated statements of operations when the operations and cash flows of the entity have been eliminated from the ongoing operations and we do not have any significant continuing involvement in the operations of the entity after the disposal transaction. During the three months ended March 31, 2011 we disposed of our Blue Harbor Resort property and have included that property s operations and gain on sale in discontinued operations for all periods presented.

Income Taxes At the end of each interim reporting period, we estimate the effective tax rate expected to be applicable for the full fiscal year. We use that estimated effective tax rate in providing for income taxes on a year-to-date basis. We account for the tax effect of significant unusual or extraordinary items in the period in which they occur. We account for major changes in our valuation allowance within continuing operations in the period in which they occur. As of September 30, 2011, we increased our valuation allowance by $4,772 as a result of the sale of our Blue Harbor Resort in Sheboygan, Wisconsin. The increase was due to uncertainties related to our ability to utilize some of our deferred tax assets generated as a result of that sale, primarily consisting of certain net operating loss carryforwards, before they expire.

For a description of our critical accounting policies and estimates, please refer to the Critical Accounting Policies and Estimates section of our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2010. Except as described above, there have been no material changes in any of our critical accounting policies since December 31, 2010.

Recent Accounting Pronouncements

In July 2010, the FASB issued guidance on disclosures about the credit quality of financing receivables and the allowance for credit losses. The guidance requires new disclosures that will require companies to provide more information about the credit quality of their financing receivables in the disclosures to the financial statements including, but not limited to, significant purchases and sales of financing receivables, aging information and credit quality indicators. This guidance is effective for interim or annual financial reporting periods beginning after December 15, 2010. The adoption of this guidance did not have a material impact on our condensed consolidated financial statements.

In December 2010, the FASB issued guidance which (1) does not prescribe a specific method of calculating the carrying 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 is 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 condensed consolidated financial statements.

38

Table of Contents

In December 2010, the FASB issued guidance to address differences in the ways entities have interpreted disclosures about pro forma revenue and earnings in a business combination. This guidance states that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. This guidance is effective prospectively for business combinations whose acquisition date is at or after the beginning of the first annual reporting period on or after December 15, 2010. The adoption of this guidance did not have a material impact on our condensed 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 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 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

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;

Table of Contents

- 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 EBITDA does 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 EBITDA differently than we do, limiting its usefulness as a comparative measure.

Because of these limitations, our EBITDA measure should not be considered as a measure of discretionary cash available to us to invest in the growth of our business or as a measure of cash that will be available to us to meet our obligations. We compensate for these limitations by using EBITDA 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 a measure of liquidity. You should therefore not place undue reliance on our EBITDA-based measure or ratios calculated using those measures. Our GAAP-based measures can be found in our consolidated financial statements and the 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).

	Three months ended September 30,		Nine months ended September 30,	
	2011	2010	2011	2010
Net income (loss) attributable to Great Wolf Resorts, Inc.	$ 1,515	$ (993)	$ (11,290)	$ (21,818)
Adjustments:				
Interest expense, net of interest income	11,919	12,254	36,094	33,479
Income tax expense	13	47	5,160	416
Depreciation and amortization	14,799	13,806	41,463	44,936
EBITDA	$ 28,246	$ 25,114	$ 71,427	$ 57,013

Results of Operations

General

Our 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 interest in the Grand Mound resort, in which we have a minority ownership interest but which we do not consolidate.

Table of Contents

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, 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.

Three months ended September 30, 2011, compared with the three months ended September 30, 2010

The following table shows key operating statistics for our resorts for the three months ended September 30, 2011 and 2010:

	All Properties	Same Store Comparison (a)			
	2011	2011	2010	$	%
Occupancy	71.8%	71.8%	68.5%	N/A	4.8%
ADR	$ 265.83	$ 265.83	$ 252.22	$ 13.61	5.4%
RevPAR	$ 190.86	$ 190.86	$ 174.87	$ 15.99	9.1%
Total RevPOR	$ 397.32	$ 397.32	$ 385.85	$ 11.47	3.0%
Total RevPAR	$ 285.27	$ 285.27	$ 264.37	$ 20.90	7.9%
Non-rooms revenue per occupied room	$ 131.50	$ 131.50	$ 130.63	$ 0.87	0.7%

(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).

The positive changes in key operating statistics for the three months ended September 30, 2011, compared to the three months ended September 30, 2010, appear to be the result of:

- 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.

Table of Contents

Presented below are selected amounts from the statements of operations for the three months ended September 30, 2011 and 2010:

	Three months ended September 30,		
	2011	2010	Increase
Revenues	$ 83,551	$ 77,918	$ 5,633
Operating expenses:			
Departmental operating expenses	25,737	24,055	1,682
Depreciation and amortization	14,799	13,715	1,084
Loss on disposition of assets	330		330
Net operating income	13,192	10,121	3,071
Discontinued operations, net of tax	105	(740)	845
Net income (loss) attributable to Great Wolf Resorts, Inc.	1,515	(993)	2,508

Revenues. Total revenues increased due to a more stable economic conditions with corresponding strengthening in consumer confidence and discretionary spending, which positively affected our business.

Operating expenses.

Departmental operating expenses increased by $1,682 in the three months ended September 30, 2011, as compared to the three months ended September 30, 2010, due primarily to an increase in revenues.

Total depreciation and amortization increased for the three months ended September 30, 2011 as compared to the three months ended September 30, 2010, primarily due to the write-off of unamortized debt issuance cost in the amount of $1,850 related to our Concord loan that was refinanced in the three months ended September 30, 2011. There was no similar write-off in the three months ended September 30, 2010.

Loss on disposition of assets increased due to a loss related to the closing of our Scooops Kid Spa in the Mall of America in the three months ended September 30, 2011. There was no similar loss during the three months ended September 30, 2010.

Net operating income. During the three months ended September 30, 2011, we had net operating income of $13,192 as compared to net operating income of $10,121 for the three months ended September 30, 2010.

Net income (loss) attributable to Great Wolf Resorts, Inc. Net income (loss) attributable to Great Wolf Resorts, Inc. increased primarily due to an increase in net operating income of $3,071. This increase was partially offset by a loss in discontinued operations in the three months ended September 30, 2011 related to our Blue Harbor Resort in Sheboygan, WI.

Table of Contents

Nine months ended September 30, 2011, compared with the nine months ended September 30, 2010

The following table shows key operating statistics for our resorts for the nine months ended September 30, 2011 and 2010:

	All Properties (a)	Same Store Comparison (b)			
	2011	2011	2010	$	%
Occupancy	66.5%	66.9%	62.9%	N/A	6.4%
ADR	$ 260.61	$ 261.36	$ 252.79	$ 8.57	3.4%
RevPAR	$ 173.37	$ 174.93	$ 158.95	$ 15.98	10.1%
Total RevPOR	$ 395.06	$ 395.74	$ 387.53	$ 8.21	2.1%
Total RevPAR	$ 262.81	$ 264.88	$ 243.67	$ 21.21	8.7%
Non-rooms revenue per occupied room	$ 134.44	$ 134.39	$ 134.73	$ (0.34)	(0.3)%

(a) Includes results for properties all owned, managed and/or licensed resorts. All Properties operating statistics include our Blue Harbor Resort in Sheboygan, WI, through March 23, 2011. We sold Blue Harbor Resort on March 24, 2011.

(b) 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 Sheboygan resort).

The positive changes in key operating statistics for the nine months ended September 30, 2011, compared to the nine months ended September 30, 2010, appear to be the result of:

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 the statements of operations for the nine months ended September 30, 2011 and 2010:

	Nine months ended September 30,		
	2011	2010	Increase/ (Decrease)
Revenues	$ 231,161	$ 213,366	$ 17,795
Operating expenses:			
Departmental operating expenses	74,671	68,538	6,133
Selling, general and administrative	49,261	47,961	1,300
Depreciation and amortization	41,362	44,879	(3,517)
Loss on disposition of assets	1,368	19	1,349
Net operating income	21,833	10,339	11,494
Interest expense, net of interest income	36,018	32,844	3,174
Income tax expense	5,175	421	4,754
Discontinued operations, net of tax	(6,704)	(182)	(6,522)
Net loss attributable to Great Wolf Resorts, Inc.	(11,290)	(21,818)	10,528

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; and

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

Operating expenses.

Departmental operating expenses increased by $6,133 in the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, due primarily to an increase in revenues and the acquisition of CK.

Table of Contents

Total selling, general and administrative expenses increased by $1,300 in the nine months ended September 30, 2011, as compared to the nine months ended September 30, 2010, due, in part, to a settlement payment received with respect to wastewater treatment litigation during the nine months ended September 30, 2010. There was no similar settlement payment received during the nine months ended September 30, 2011.

Total depreciation and amortization decreased, primarily due to a smaller write-off of unamortized debt issuance costs during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. During the nine months ended September 30, 2011, we wrote off $1,850 of unamortized debt issuance costs related to our Concord loan that we refinanced. During the nine months ended September 30, 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 due to a loss related to CK as well as the closing of our Scooops Kid Spa in the Mall of America during the nine months ended September 30, 2011. There were no similar losses during the nine months ended September 30, 2010.

Net operating income. During the nine months ended September 30, 2011, we had net operating income of $21,833 as compared to a net operating income of $10,339 for the nine months ended September 30, 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 $11,494; and

During the nine months ended September 30, 2011 we disposed of our Blue Harbor Resort in Sheboygan, WI and have included the property s operations in discontinued operations for the nine months ended September 30, 2011 and 2010. Included in discontinued operations for the nine months ended September 30, 2011 is a gain on sale of $6,667.

These increases were partially offset by:

An increase in net interest expense of $3,174, mainly due to interest expense related to our first mortgage notes issued in April 2010; and

An increase in income tax expense of $4,754 recorded in the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010. The increase in income tax expense was mainly due to an increase in our valuation allowance of $4,772, as a result of our sale of Blue Harbor Resort. The increase was 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.

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 of our condensed consolidated financial statements.

	Three months ended September 30,			Nine months ended September 30,		
	2011	2010	Increase/ (Decrease)	2011	2010	Increase
Resort Ownership/Operation						
Revenues	$ 74,194	$ 67,948	$ 6,246	$ 204,655	$ 188,330	$ 16,325
EBITDA	25,267	22,251	3,016	64,749	51,820	12,929
Resort Third-Party Management/License						
Revenues	7,462	7,526	(64)	22,145	21,724	421
EBITDA	1,869	1,817	52	5,303	4,991	312
Other						
Revenues	1,895	2,444	(549)	4,361	3,312	1,049
EBITDA	1,110	1,046	64	1,375	202	1,173

Table of Contents

The Other column 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 the Resort Ownership/Operation or Resort Third-Party Management/License segments.

Liquidity and Capital Resources

We had total indebtedness of $517,496 and $552,298 as of September 30, 2011 and December 31, 2010, respectively, summarized as follows:

	September 30, 2011	December 31, 2010
Mortgage Debt:		
Traverse City/Kansas City mortgage loan	$ 66,016	$ 67,236
Pocono Mountains mortgage loan	93,341	94,274
Concord mortgage loan	56,000	78,147
First mortgage notes (net of discount of 8,429 and $9,578)	221,571	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	23	47
	517,496	552,298
Less current portion of long-term debt	(67,841)	(70,083)
Total long-term debt	$ 449,655	$ 482,215

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 September 30, 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 twelve-month period ended September 30, 2011, the DSCR for this loan was 1.15, 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 September 30, 2011, since the lock-box

45

Table of Contents

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 September 30, 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 $38,959 as of September 30, 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 $66,016 as of September 30, 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 the nine months ended September 30, 2011, we currently expect the properties to generate sufficient cash flow so that our subsidization of debt service, if any, for 2011 will be insignificant to our overall operations. As a result, we currently believe the most likely course of action for 2011 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 September 30, 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 $76,600 under the original loan using the proceeds of the new loan and 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 September 30, 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 at which time the lender 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. The loan requires a minimum DSCR of (i) 1.15 the first year of the loan (ii) 1.20 the second year of the loan and (iii) 1.30 thereafter.We were in compliance with all covenants under this loan at September 30, 2011.

In connection with the refinancing transaction, we were required to provide interest rate protection on a portion of the loan amount through the loans maturity date. Therefore, we executed an interest rate cap that caps the loan at 8.00% interest rate through July

Table of Contents

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 any change to interest expense. In connection with this refinancing 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 $1,500 in Trust I s common securities, representing 3% of the total capitalization of Trust I.

Trust I used the proceeds of the offering and our investment to purchase from us $51,550 of 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 June 2017 and are callable at no premium after June 2012. In addition, we invested $870 in the Trust s common securities, representing 3% of the total capitalization of Trust III.

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

Issue trusts, like Trust I and Trust III (collectively, the Trusts), are generally variable interests. We have determined that we are not the primary beneficiary under the Trusts, and accordingly we do not include the financial statements of the Trusts in our consolidated financial statements.

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.

Table of Contents

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 are as follows:

Through September 30,	
2012	$ 3,542
2013	4,752
2014	57,472
2015	62,053
2016	1,671
Thereafter	396,435
Total	$ 525,925

As discussed above, the Traverse City/Kansas City mortgage loan is classified as a current liability as of September 30, 2011, due to the implementation of a traditional lock-box arrangement, although the loan is not in default and the full principal balance of the loan is not due currently. The future maturities table above reflects future cash principal repayments currently required under the provisions of that loan of $1,717 in 2012, $1,851 in 2013, $1,981 in 2014, $60,467 in 2015.

Short-Term Liquidity Requirements

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

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

income taxes.

Historically, we have satisfied our short-term liquidity requirements through 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.

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;

Table of Contents

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 additional future 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 expenditures are expected to be for capital expenditures for our existing resorts, capital expenditures for development of future resorts, and capital contributions or loans to joint ventures owning resorts under construction or development.

Expenditures related to capital expenditures for our existing resorts were $7,720 for the nine months ended September 30, 2011. We expect to have approximately $3,000 of such expenditures for the rest of 2011. We also 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 to approximately $10,000 or less over the next 12 months for development of new resorts or capital contributions to joint ventures that develop or acquire resorts that we would license or manage.

Off Balance Sheet Arrangements

We have one unconsolidated joint venture arrangement at September 30, 2011. We account for our unconsolidated joint venture using the equity method of accounting.

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 joint venture is a limited liability company. We are a member of that limited liability company with a 49% ownership interest. At September 30, 2011, the joint venture had aggregate outstanding indebtedness to third parties of $96,014. As of September 30, 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 resorts.

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, as we currently do not expect to make any significant future capital contributions to this joint venture.

Table of Contents

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2011:

		Payment Terms			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt obligations (1)	$ 720,566	$ 38,954	$ 132,362	$ 126,032	$ 423,218
Operating lease obligations	3,314	850	1,400	730	334
Reserve on unrecognized tax benefits	1,268				1,268
Total	$ 725,148	$ 39,804	$ 133,762	$ 126,762	$ 424,820

(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 $34,532 of available cash and cash equivalents and a working capital deficit of $60,914 (current assets less current liabilities) at September 30, 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 reason for the working capital deficit as of September 30, 2011 and December 31, 2010 was due to our Traverse City/Kansas City mortgage loan (principal balance of $66,016 as of September 30, 2011) being classified 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 September 30, 2011, the loan is not in default and the principal balance is not currently due.

Cash Flows

Nine months ended September 30, 2011, compared with the nine months ended September 30, 2010

	2011	2010	Decrease
Net cash provided by operating activities	$ 27,269	$ 32,513	$ (5,244)
Net cash used in investing activities	(4,937)	(2,345)	(2,592)
Net cash used in financing activities	(24,788)	(7,978)	(16,810)

Operating Activities. The decrease in net cash provided by operating activities resulted primarily from a increase in accounts receivable and other assets and a decrease in accounts payable, accrued expenses and other liabilities during the nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

Investing Activities. The increase in net cash used by investing activities for the nine months ended September 30, 2011, as compared to the nine months ended September 30, 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 nine months ended September 30, 2011 as compared to the nine months ended September 30, 2010.

50

Table of Contents

Inflation

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

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

Our future income, cash flows and fair values relevant to financial instruments are dependent, in part, upon prevailing market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. Our earnings are also affected by the changes in interest rates due to the impact those changes have on our interest income from cash and 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 September 30, 2011, we had total indebtedness of $517,496. This debt consisted of:

$66,016 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%. This loan matures in January 2015.

$93,341 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%. This loan matures in January 2017.

$56,000 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 September 30, 2011. This loan matures in July 2014.

$221,571 (net of discount of $8,429) of 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 notes 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 notes that bear interest at a fixed rate of 7.90% through June 2012 and then at a floating rate of LIBOR plus 300 basis points thereafter. The securities mature in June 2017.

$23 related to a capital lease that was entered into in June 2009. The lease matures in May 2012.

As of September 30, 2011, we estimate the total fair value of the indebtedness described above to be $44,720 less than their total carrying values, due to the terms of the existing debt being different than those terms we believe would currently be available to us for indebtedness with similar risks and remaining maturities.

At September 30, 2011 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 balance outstanding and current interest rates in effect as of September 30, 2011, as LIBOR plus the loans basis point spreads would not increase or decrease above the loans minimum rate floor.

During the nine months ended September 30, 2011, there were no other material changes in our market risk exposure. For a complete discussion of our market risk associated with interest rate risk as of September 30, 2011, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2010.

Table of Contents

ITEM 4. 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 third quarter of 2011. We have concluded that our disclosure controls and procedures were effective as of September 30, 2011.

Changes in Internal Control over Financial Reporting

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

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are involved in litigation from time to time in the ordinary course of our business. We do not believe that the outcome of any 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, materially adverse to the Company, could occur.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2010, and subsequent Quarterly Reports on Form 10-Q, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K, and subsequent Quarterly Reports on Form 10-Q, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

We did not make any unregistered sales of equity securities during the applicable period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

We were not in default of our obligations upon any senior securities during the applicable period.

ITEM 4. [Removed and Reserved]

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed below are included as exhibits in this Quarterly Report on Form 10-Q.

Exhibit Number	Description
10.1	Separation Agreement and Release between Great Wolf Resorts, Inc. and J. Michael Schroeder dated February 17, 2011 (incorporated herein by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q filed May 5, 2011).
10.2	Purchase Agreement for Blue Harbor Resort, Sheboygan, Wisconsin between Claremont New Frontier Resort, LLC and Blue Harbor Resort Sheboygan, LLC dated March 17, 2011 (incorporated herein by reference to Exhibit 10.2 to the Company s Quarterly Report on Form 10-Q filed May 5, 2011).
10.3*	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.
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a 14(a) and Rule 15d 14(a).
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a 14(a) and Rule 15d 14(a).
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.

32.2* Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.

* Filed herewith

Table of Contents

SIGNATURE

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

GREAT WOLF RESORTS, INC.

/s/ James A. Calder
James A. Calder
Chief Financial Officer
(Duly authorized officer)
(Principal Financial and Accounting Officer)

Dated: November 4, 2011