Great Wolf Resorts, Inc.
Form 10-Q
August 14, 2012
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 June 30, 2012

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 x 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 200 as of August 14, 2012.

Table of Contents

Great Wolf Resorts, Inc.

Quarterly Report on Form 10-Q

For the Quarter Ended June 30, 2012

INDEX

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, 2011. 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)

	June 30, 2012 Successor	December 31, 2011 Predecessor
ASSETS		
Current assets:		
Cash and cash equivalents	$ 24,858	$ 33,767
Escrows	4,973	2,618
Accounts receivable, net of allowance for doubtful accounts of $4 and $5	4,336	3,660
Accounts receivable affiliate	1,765	3,243
Inventory	8,027	7,570
Other current assets	9,353	6,212
Total current assets	53,312	57,070
Property and equipment, net	633,248	576,262
Investments in and advances to affiliate	25,444	24,311
Other assets	10,056	20,556
Goodwill	96,830	1,365
Intangible assets	50,805	25,310
Total assets	$ 869,695	$ 704,874
LIABILITIES AND EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 67,363	$ 67,678
Accounts payable	7,571	5,301
Accounts payable affiliate	21	27
Accrued interest payable	7,970	8,012
Accrued expenses	21,059	24,211
Advance deposits	13,539	7,715
Other current liabilities	5,150	7,529
Total current liabilities	122,673	120,473
Mortgage debt	403,417	366,951
Other long-term debt	60,842	80,545
Deferred tax liability	17,145	11,907
Deferred compensation liability	1,940	1,502
Total liabilities	606,017	581,378
Commitments and contingencies		
Great Wolf Resorts Inc. stockholders equity:		
Common stock, $0.01 par value; 250,000,000 shares authorized; 200 and 32,470,524 shares issued and outstanding		325
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding		
Additional paid-in-capital	264,064	404,714

Accumulated deficit	(5,262)	(281,314)
Deferred compensation		(200)
Total Great Wolf Resorts, Inc. stockholders equity	258,802	123,525
Noncontrolling interest	4,876	(29)
Total equity	263,678	123,496
Total liabilities and equity	$ 869,695	$ 704,874

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)

	Successor	Predecessor		Predecessor	
	Period May 5, 2012 through June 30, 2012	Period April 1, 2012 through May 4, 2012	Three months ended June 30, 2011	Period January 1, 2012 through May 4, 2012	Six months ended June 30, 2011
Revenues:					
Rooms	$ 28,054	$ 18,368	$ 44,831	$ 63,793	$ 87,018
Food and beverage	8,121	4,726	11,989	17,273	23,191
Other	7,267	4,615	11,539	15,920	22,718
Management and other fees	480	701	654	1,398	1,407
Management and other fees affiliates	535	441	1,024	1,414	2,027
	44,457	28,851	70,037	99,798	136,361
Other revenue from managed properties	1,878	1,123	2,945	4,193	5,782
Other revenue from managed properties affiliates	1,729	1,129	2,743	3,901	5,467
Total revenues	48,064	31,103	75,725	107,892	147,610
Operating expenses by department:					
Rooms	4,222	2,518	6,576	9,458	12,623
Food and beverage	6,129	3,492	9,289	12,946	17,749
Other	6,585	3,718	9,145	13,450	18,562
Other operating expenses:					
Selling, general and administrative	13,376	19,626	16,924	42,205	33,905
Property operating costs	4,874	3,611	8,856	11,347	17,280
Depreciation and amortization	7,779	4,450	13,315	16,469	26,563
Loss on disposition of assets		47	1,038	47	1,038
	42,965	37,462	65,143	105,922	127,720
Other expenses from managed properties	1,878	1,123	2,945	4,193	5,782
Other expenses from managed properties affiliates	1,729	1,129	2,743	3,901	5,467
Total operating expenses	46,572	39,714	70,831	114,016	138,969
Net operating income (loss)	1,492	(8,611)	4,894	(6,124)	8,641
Investment income affiliates	(137)	(83)	(220)	(303)	(462)
Interest income	(31)	(24)	(51)	(82)	(106)
Interest expense	6,259	4,359	12,108	16,016	24,205
Loss from continuing operations before income taxes and equity in loss (income) of unconsolidated affiliates	(4,599)	(12,863)	(6,943)	(21,755)	(14,996)
Income tax expense (benefit)	279	(106)	348	269	621
Equity in loss (income) of unconsolidated affiliates, net of tax	402	(458)	(344)	(551)	(451)
Net loss from continuing operations	(5,280)	(12,299)	(6,947)	(21,473)	(15,166)
Discontinued operations, net of tax	(7)	(13)	(65)	23	(6,809)

Net loss	(5,273)	(12,286)	(6,882)	(21,496)	(8,357)
Net income attributable to noncontrolling interest, net of tax	(11)	(3)	(23)	(15)	(32)
Net loss attributable to Great Wolf Resorts, Inc.	$ (5,262)	$ (12,283)	$ (6,859)	$ (21,481)	$ (8,325)

See accompanying notes to the condensed consolidated financial statements.

5

Table of Contents

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; dollars in thousands)

	Successor	Predecessor	
	Period May 5, 2012 through June 30, 2012	Period January 1, 2012 through May 4, 2012	Six months ended June 30, 2011
Operating activities:			
Net loss	$ (5,273)	$ (21,496)	$ (8,357)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	7,779	16,469	26,664
Bad debt expense	9	26	25
Amortization of debt fair value	(887)		
Non-cash employee compensation and professional fees expense	868	3,348	1,130
Loss on disposition of assets		47	1,038
Gain on disposition of property included in discontinued operations			(6,667)
Equity in loss (income) of unconsolidated affiliates	423	(559)	(494)
Deferred tax expense	36	73	106
Changes in operating assets and liabilities:			
Accounts receivable and other assets	(1,149)	103	(4,893)
Accounts payable, accrued expenses and other liabilities	(861)	3,667	(3,826)
Net cash provided by operating activities	945	1,678	4,726
Investing activities:			
Capital expenditures for property and equipment	(3,264)	(2,237)	(5,174)
Loan repayment from unconsolidated affiliates			807
Investment in development	(14)	(75)	(168)
Proceeds from the sale of assets		3	4,200
Increase in restricted cash	(1,279)	(3,464)	(335)
Net cash used in investing activities	(4,557)	(5,773)	(670)
Financing activities:			
Principal payments on debt	(392)	(1,777)	(2,471)
Payment of loan costs	(4)	(120)	(241)
Capital contributions	1,091		
Net cash provided by (used in) financing activities	695	(1,897)	(2,712)
Net (decrease) increase in cash and cash equivalents	(2,917)	(5,992)	1,344
Cash and cash equivalents, beginning of period	27,775	33,767	36,988
Cash and cash equivalents, end of period	$ 24,858	$ 27,775	$ 38,332
Supplemental Cash Flow Information:			
Cash paid for interest	$ 403	$ 20,499	$ 24,657
Cash paid for income taxes	$ 423	$ 211	$ 591

Non-cash items:			
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.

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.

On May 4, 2012, the Company merged with K-9 Acquisition, Inc., a Delaware corporation (Merger Sub), in the Merger (as defined and discussed in Note 4 below). Although the Company continued as the same legal entity after the Merger, the Company s capital structure changed significantly as a result of the Merger and our financial statement presentations distinguish between a Predecessor for periods prior to the Merger and a Successor for periods subsequent to the Merger. The Merger was accounted for as a business combination using the acquisition method of accounting and Successor financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the effective time of the Merger. The determination of these fair values reflects appraisals prepared by independent third parties and is based on actual tangible and identifiable intangible assets and liabilities that existed as of the effective time of the Merger. As a result of the application of the acquisition method of accounting as of the effective time of the Merger, the financial statements for the Predecessor period and for the Successor period are presented on different bases and are, therefore, not comparable.

The following table presents an overview of our portfolio of resorts. As of June 30, 2012, 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	Indoor Entertainment Area (1) (Approx. sq. ft)
Wisconsin Dells, WI (3)		1997	385(2)	102,000

Sandusky, OH (3)		2001	271	41,000
Traverse City, MI	100%	2003	280	57,000
Kansas City, KS	100%	2003	281	57,000
Williamsburg, VA (4)	100%	2005	405	87,000
Pocono Mountains, PA (4)	100%	2005	401	101,000
Niagara Falls, ONT (5)		2006	406	104,000
Mason, OH (4)	100%	2006	401	105,000

	Ownership Percentage	Opened	Number of Guest Suites	Indoor Entertainment Area (1) (Approx. sq. ft)
Grapevine, TX (4)	100%	2007	605	110,000
Grand Mound, WA (6)	49%	2008	398	74,000
Concord, NC (4)	100%	2009	402	97,000

(1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children s activity room, family tech center, MagiQuest® (an interactive game attraction) and fitness room, as well as our spa in the resorts that have such amenities.
(2) Total number of guest suites includes 77 condominium units that are individually owned and we manage.
(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 June 30, 2012 and each of those five properties had total revenues equal to ten percent or more of our total revenues for the period January 1 - March 31, 2012; the period April 1 - May 4, 2012; and the period May 5 - June 30, 2012.
(5) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016.
(6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We 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.

2. REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

In connection with the preparation of our condensed consolidated financial statements for the second quarter of 2012, we identified an error in the manner in which deferred tax balances were calculated. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, *Materiality*), we assessed the materiality of the error and concluded that the error was not material to any of our previously issued financial statements. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*), we will revise our previously issued financial statements to correct the effect of this error. This non-cash revision does not impact our operating income or cash flows for any prior period.

The following tables present the effect of this correction on the Company s Consolidated Balance Sheets, Statements of Operations, Statements of Equity and Statements of Cash Flows for all Predecessor periods affected:

	As Previously Reported	Adjustment	As Revised
March 31, 2012			
Condensed Consolidated Balance Sheet			
Other current assets	$ 8,459	$ (955)	$ 7,504
Total current assets	72,403	(955)	71,448
Other assets	25,977	(5,373)	20,604
Total assets	715,439	(6,328)	709,111
Deferred tax liability		11,961	11,961
Total liabilities	582,517	11,961	594,478
Accumulated deficit	(272,223)	(18,289)	(290,512)
Total Great Wolf Resorts, Inc. stockholders equity	132,964	(18,289)	114,675
Total equity	132,922	(18,289)	114,633
Total liabilities and equity	715,439	(6,328)	709,111
Three Months Ended March 31, 2012			
Condensed Consolidated Statement of Operations			
Income tax expense	$ 441	$ (66)	$ 375
Equity in income of unconsolidated affiliates, net of tax	(92)	(1)	(93)

Net loss from continuing operations		(9,241)		67		(9,174)
Net loss		(9,277)		67		(9,210)
Net income attributable to noncontrolling interest, net of tax		(13)		1		(12)
Net loss attributable to Great Wolf Resorts, Inc.		(9,264)		66		(9,198)
Loss per share of common stock basic and diluted:						
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$	(0.29)	$	0.00	$	(0.29)
Income (loss) from discontinued operations, net of tax		(0.00)		0.00		0.00
Basic and diluted loss per common share	$	(0.29)	$	0.00	$	(0.29)
Condensed Consolidated Statement of Cash Flow						
Net loss	$	(9,277)	$	67	$	(9,210)
Deferred tax expense		120		(67)		53

Table of Contents

	As Previously Reported	Adjustment	As Revised
December 31, 2011			
Consolidated Balance Sheet			
Other current assets	$ 7,167	$ (955)	$ 6,212
Total current assets	58,025	(955)	57,070
Other assets	26,049	(5,493)	20,556
Total assets	711,322	(6,448)	704,874
Deferred tax liability		11,907	11,907
Total liabilities	569,471	11,907	581,378
Accumulated deficit	(262,959)	(18,355)	(281,314)
Total Great Wolf Resorts, Inc. stockholders equity	141,880	(18,355)	123,525
Total equity	141,851	(18,355)	123,496
Total liabilities and equity	711,322	(6,448)	704,874
Year Ended December 31, 2011			
Consolidated Statement of Operations			
Income tax expense	$ 7,086	$ (5,954)	$ 1,132
Equity in loss of unconsolidated affiliates, net of tax	18	(5)	13
Net loss from continuing operations	(32,324)	5,959	(26,365)
Net loss	(25,690)	5,959	(19,731)
Net income attributable to noncontrolling interest, net of tax	(27)	9	(18)
Net loss attributable to Great Wolf Resorts, Inc.	(25,663)	5,950	(19,713)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (1.03)	$ 0.19	$ (0.84)
Income from discontinued operations, net of tax	0.21	0.00	0.21
Basic and diluted loss per common share	$ (0.82)	$ 0.19	$ (0.63)
Consolidated Statement of Equity			
Net loss attributable to Great Wolf Resorts, Inc.	$ (25,663)	$ 5,950	$ (19,713)
Accumulated deficit	(262,959)	(18,355)	(281,314)
Consolidated Statement of Cash Flow			
Net loss	$ (25,690)	$ 5,959	$ (19,731)
Deferred tax expense	6,167	(5,959)	208

	As Previously Reported	Adjustment	As Revised
September 30, 2011			
Condensed Consolidated Balance Sheet			
Other assets	$ 29,470	$ (8,234)	$ 21,236
Total assets	729,783	(8,234)	721,549
Deferred tax liability		11,853	11,853
Total liabilities	574,175	11,853	586,028
Accumulated deficit	(248,586)	(20,087)	(268,673)
Total Great Wolf Resorts, Inc. stockholders equity	155,634	(20,087)	135,547
Total equity	155,608	(20,087)	135,521
Total liabilities and equity	729,783	(8,234)	721,549
Three Months Ended September 30, 2011			
Condensed Consolidated Statement of Operations			
Income tax expense	$ 39	$ 179	$ 218
Equity in income of unconsolidated affiliates, net of tax	(184)	83	(101)
Net income from continuing operations	1,638	(262)	1,376
Net income	1,533	(262)	1,271
Net income attributable to Great Wolf Resorts, Inc.	1,515	(262)	1,253
Income per share of common stock basic and diluted:			
	$ 0.05	$ (0.01)	$ 0.04

Income from continuing operations, net of net income attributable to noncontrolling interest, net of tax						
Income from discontinued operations, net of tax		0.00		0.00		0.00
Basic and diluted loss per common share	$	0.05	$	(0.01)	$	0.04

Nine Months Ended September 30, 2011

Condensed Consolidated Statement of Operations						
Income tax expense	$	5,175	$	(4,336)	$	839
Equity in income of unconsolidated affiliates, net of tax		(667)		115		(552)

9

Table of Contents

Net loss from continuing operations	(18,011)	4,221	(13,790)
Net loss	(11,307)	4,221	(7,086)
Net income attributable to noncontrolling interest, net of tax	(17)	3	(14)
Net loss attributable to Great Wolf Resorts, Inc.	(11,290)	4,218	(7,072)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (0.58)	$ 0.13	$ (0.45)
Income from discontinued operations, net of tax	0.22	0.00	0.22
Basic and diluted loss per common share	$ (0.36)	$ 0.13	$ (0.23)
Condensed Consolidated Statement of Cash Flow			
Net loss	$ (11,307)	$ 4,221	$ (7,086)
Deferred tax expense	4,380	(4,221)	159

	As Previously Reported	**Adjustment**	**As Revised**
June 30, 2011			
Condensed Consolidated Balance Sheet			
Other assets	$ 30,704	$ (8,026)	$ 22,678
Total assets	744,470	(8,026)	736,444
Deferred tax liability		11,798	11,798
Total liabilities	590,908	11,798	602,706
Accumulated deficit	(250,101)	(19,824)	(269,925)
Total Great Wolf Resorts, Inc. stockholders equity	153,607	(19,824)	133,783
Total equity	153,562	(19,824)	133,738
Total liabilities and equity	744,470	(8,026)	736,444
Three Months Ended June 30, 2011			
Condensed Consolidated Statement of Operations			
Income tax expense	$ 134	$ 214	$ 348
Equity in income of unconsolidated affiliates, net of tax	(332)	(12)	(344)
Net loss from continuing operations	(6,745)	(202)	(6,947)
Discontinued operations, net of tax	107	(172)	(65)
Net loss	(6,852)	(30)	(6,882)
Net income attributable to noncontrolling interest, net of tax	(21)	(2)	(23)
Net loss attributable to Great Wolf Resorts, Inc.	(6,831)	(28)	(6,859)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (0.22)	$ 0.00	$ (0.22)
Income from discontinued operations, net of tax	0.00	0.00	0.00
Basic and diluted loss per common share	$ (0.22)	$ 0.00	$ (0.22)
Six Months Ended June 30, 2011			
Condensed Consolidated Statement of Operations			
Income tax expense	$ 5,136	$ (4,515)	$ 621
Equity in (income) loss of unconsolidated affiliates, net of tax	(483)	32	(451)
Net loss from continuing operations	(19,649)	4,483	(15,166)
Net loss	(12,840)	4,483	(8,357)
Net income attributable to noncontrolling interest, net of tax	(35)	3	(32)
Net loss attributable to Great Wolf Resorts, Inc.	(12,805)	4,480	(8,325)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (0.63)	$ 0.14	$ (0.49)
Income from discontinued operations, net of tax	0.22	0.00	0.22
Basic and diluted loss per common share	$ (0.41)	$ 0.14	$ (0.27)

Condensed Consolidated Statement of Cash Flow			
Net loss	$ (12,840)	$ 4,483	$ (8,357)
Deferred tax expense	4,589	(4,483)	106

Table of Contents

	As Previously Reported	Adjustment	As Revised
March 31, 2011			
Condensed Consolidated Balance Sheet			
Other assets	$ 31,496	$ (8,053)	$ 23,443
Total assets	761,625	(8,053)	753,572
Deferred tax liability		11,744	11,744
Total liabilities	601,655	11,744	613,399
Accumulated deficit	(243,270)	(19,797)	(263,067)
Total Great Wolf Resorts, Inc. stockholders equity	159,993	(19,797)	140,196
Total equity	159,970	(19,797)	140,173
Total liabilities and equity	761,625	(8,053)	753,572
Three Months Ended March 31, 2011			
Condensed Consolidated Statement of Operations			
Income tax expense	$ 5,002	$ (4,729)	$ 273
Equity in income of unconsolidated affiliates, net of tax	(151)	44	(107)
Net loss from continuing operations	(12,904)	4,685	(8,219)
Discontinued operations, net of tax	(6,916)	172	(6,744)
Net loss	(5,988)	4,513	(1,475)
Net income attributable to noncontrolling interest, net of tax	(14)	5	(9)
Net loss attributable to Great Wolf Resorts, Inc.	(5,974)	4,508	(1,466)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (0.41)	$ 0.14	$ (0.27)
Income from discontinued operations, net of tax	0.22	0.00	0.22
Basic and diluted loss per common share	$ (0.19)	$ 0.14	$ (0.05)
Condensed Consolidated Statement of Cash Flow			
Net loss	$ (5,988)	$ 4,513	$ (1,475)
Deferred tax expense	4,562	(4,513)	49

Table of Contents

	As Previously Reported	Adjustment	As Revised
December 31, 2010			
Consolidated Balance Sheet			
Other assets	$ 38,649	$ (12,615)	$ 26,034
Total assets	771,238	(12,615)	758,623
Deferred tax liability		11,690	11,690
Total liabilities	605,468	11,690	617,158
Accumulated deficit	(237,296)	(24,305)	(261,601)
Total Great Wolf Resorts, Inc. stockholders equity	165,779	(24,305)	141,474
Total equity	165,770	(24,305)	141,465
Total liabilities and equity	771,238	(12,615)	758,623
Year Ended December 31, 2010			
Consolidated Statement of Operations			
Income tax expense (benefit)	$ (5,403)	$ 6,188	$ 785
Equity in loss of unconsolidated affiliates, net of tax	576	72	648
Net loss from continuing operations	(50,563)	(6,260)	(56,823)
Discontinued operations, net of tax	455	54	509
Net loss	(51,018)	(6,314)	(57,332)
Net loss attributable to Great Wolf Resorts, Inc.	(51,009)	(6,314)	(57,323)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (1.63)	$ (0.20)	$ (1.83)
Loss from discontinued operations, net of tax	(0.02)	0.00	(0.02)
Basic and diluted loss per common share	$ (1.65)	$ (0.20)	$ (1.85)
Consolidated Statement of Equity			
Net loss attributable to Great Wolf Resorts, Inc.	$ (51,009)	$ (6,314)	$ (57,323)
Accumulated deficit	(237,296)	(24,305)	(261,601)
Consolidated Statement of Cash Flow			
Net loss	$ (51,018)	$ (6,314)	$ (57,332)
Deferred tax expense	(6,408)	6,314	(94)

	As Previously Reported	Adjustment	As Revised
Year Ended December 31, 2009			
Consolidated Statement of Operations			
Income tax expense	$ 220	$ (40)	$ 180
Equity in loss of unconsolidated affiliates, net of tax	2,435	(3)	2,432
Net loss from continuing operations	(30,518)	43	(30,475)
Discontinued operations, net of tax	27,958	(41)	27,917
Net loss	(58,476)	84	(58,392)
Loss per share of common stock basic and diluted:			
Loss from continuing operations, net of net income attributable to noncontrolling interest, net of tax	$ (0.99)	$ (0.00)	$ (0.99)
Loss from discontinued operations, net of tax	(0.91)	0.00	(0.91)

Table of Contents

	As Previously Reported	Adjustment	As Revised
Basic and diluted loss per common share	$ (1.90)	$ 0.00	$ (1.90)
Consolidated Statement of Equity			
Net loss	$ (58,476)	$ 84	$ (58,392)
Accumulated deficit	(186,287)	(17,991)	(204,278)
Consolidated Statement of Cash Flow			
Net loss	$ (58,476)	$ 84	$ (58,392)
Deferred tax expense	131	(84)	47

3. 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, 2011 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, 2011.

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 2011 amounts have been reclassified to conform to the 2012 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; and

- On our condensed consolidated balance sheet, we have reclassified and presented as a separate line item goodwill, which was previously included with intangible assets.

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.

Intangibles Our intangible assets consist of the value of our brand names, management contracts and patented and unpatented technologies. A summary of our intangibles is as follows:

	Successor 6/30/12	Predecessor 12/31/11
Brandnames	$ 40,800	$ 23,829
Management contracts, net of amortization	8,186	
Patented and unpatented technologies	1,819	1,481
	$ 50,805	$ 25,310

13

Table of Contents

The brand name intangible assets have indefinite useful lives. We do not amortize the brand name intangibles, but instead test them for possible impairment at least annually or when circumstances warrant, by comparing the fair value of the intangible asset with its carrying amount. We amortize our management contract intangibles over the remaining life of the contracts, ranging from 4 years to 45 years. We amortize our patented and unpatented technologies over 15 years.

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. Recoverability of goodwill is measured at the reporting unit level and determined using a two-step process. The first step compares the carrying amount of the reporting unit to its estimated fair value. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step of the impairment test is not necessary. To the extent that the carrying value of the reporting unit exceeds its estimated fair value, a second step is performed, wherein the reporting unit s carrying value of goodwill is compared to the implied fair value of goodwill. To the extent that the carrying value exceeds the implied fair value, impairment exists and must be recognized. 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 recorded $1,365 of goodwill. In 2012 in connection with the Merger, we recorded $96,830 of goodwill as part of purchase accounting.

Balance as of January 1, 2011 (Predecessor)	
Goodwill recorded related to the acquisition of the majority interest in CK	$ 1,365
Balance as of December 31, 2011 and May 4, 2012 (Predecessor)	$ 1,365
Goodwill removed as a result of the Merger	(1,365)
Goodwill recorded related to the Merger	96,830
Balance as of June 30, 2012 (Successor)	$ 96,830

Noncontrolling Interests We record the interests in CK not owned by us 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.

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 six months ended June 30, 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.

Segments 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:

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. Included in net operating loss in the other column are $10,993 and $15,970 of merger-related transaction costs for the periods April 1, 2012 May 4, 2012 and January 1, 2012 May 4, 2012, respectively. Total assets at the corporate level primarily consist of cash, our investment in affiliates, and intangibles. At June 30, 2012 goodwill in the amounts of $92,021 and $4,809 have been assigned to the Resort Ownership/Operation and Other segments, respectively.

Table of Contents

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Period May 5, 2012 through June 30, 2012 (Successor)				
Revenues	$ 42,664	$ 4,622	$ 778	$ 48,064
Depreciation and amortization	(6,950)		(829)	(7,779)
Net operating income (loss)	3,385	1,012	(2,905)	1,492
Investment income affiliates				(137)
Interest income				(31)
Interest expense				6,259
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (4,599)
Additions to long-lived assets	3,258		6	$ 3,264
Total assets	758,652	1,207	109,836	$ 869,695

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Period April 1, 2012 through May 4, 2012 (Predecessor)				
Revenues	$ 27,157	$ 3,394	$ 552	$ 31,103
Depreciation and amortization	(4,179)		(271)	(4,450)
Net operating income (loss)	3,280	1,143	(13,034)	(8,611)
Investment income affiliates				(83)
Interest income				(24)
Interest expense				4,359
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (12,863)

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Three months ended June 30, 2011 (Predecessor)				
Revenues	$ 67,208	$ 7,366	$ 1,151	$ 75,725
Depreciation and amortization	(12,554)		(761)	(13,315)
Net operating income (loss)	3,606	1,679	(391)	4,894
Investment income affiliates				(220)
Interest income				(51)
Interest expense				12,108

Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (6,943)
Additions to long-lived assets	4,367		106	$ 4,473
Total assets	620,802	1,719	113,923	$ 736,444

Table of Contents

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
January 1, 2012 through May 4, 2012 (Predecessor)				
Revenues	$ 95,876	$ 10,906	$ 1,110	$ 107,892
Depreciation and amortization	(15,476)		(993)	(16,469)
Net operating income (loss)	11,070	2,813	(20,007)	(6,124)
Investment income affiliates				(303)
Interest income				(82)
Interest expense				16,016
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (21,755)
Additions to long-lived assets	2,173		64	$ 2,237

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
Six months ended June 30, 2011 (Predecessor)				
Revenues	$ 130,461	$ 14,683	$ 2,466	$ 147,610
Depreciation and amortization	(25,038)		(1,525)	(26,563)
Net operating income (loss)	7,843	3,435	(2,637)	8,641
Investment income affiliates				(462)
Interest income				(106)
Interest expense				24,205
Loss from continuing operations before income taxes and equity in income of unconsolidated affiliates				$ (14,996)
Additions to long-lived assets	4,962		212	$ 5,174
Total assets	620,802	1,719	113,923	$ 736,444

Recent Accounting Pronouncements 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. The adoption of this guidance did not have a material impact on our consolidated financial statements.

Table of Contents

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

4. PURCHASE ACCOUNTING IN CONNECTION WITH THE MERGER

On March 12, 2012, we entered into an Agreement and Plan of Merger (as amended, the Merger Agreement) with K-9 Holdings, Inc., a Delaware corporation (Parent), and Merger Sub, a direct wholly-owned subsidiary of Parent. Pursuant to the terms of the Merger Agreement, among other things, Parent and Merger Sub agreed to make a tender offer (the Offer) for all of the outstanding shares (each, a Share) of common stock (including restricted shares), par value $0.01 per share, of the Company (the Common Stock) at a price of $7.85 per share, net to the seller in cash, without interest (the Offer Price). Approximately 76% of the outstanding Shares were tendered in the Offer and the Company accepted all such tendered Shares for payment.

Following the expiration of the Offer, on May 4, 2012, Merger Sub exercised its option under the Merger Agreement to purchase a number of shares of Common Stock necessary for Merger Sub to own one share more than 90% of the outstanding Shares of Common Stock (the Top-Up Shares) at the Offer Price.

On May 4, 2012, following Merger Sub s purchase of the Top-Up Shares, Parent completed its acquisition of the Company through the merger of Merger Sub with and into the Company, with the Company continuing as the surviving corporation in the merger and becoming a direct wholly-owned subsidiary of Parent (the Merger).

At the effective time of the Merger, each share of Common Stock issued and outstanding immediately prior thereto (other than Common Stock owned or held (i) in treasury by the Company or any wholly-owned subsidiary of the Company, (ii) by Parent or any of its subsidiaries (including the Top-Up Shares), or (iii) by stockholders who have validly exercised their appraisal rights), was canceled and converted into the right to receive the Offer Price in cash, without interest and subject to applicable withholding tax.

The total cost to acquire all outstanding Shares pursuant to the Offer and the Merger was approximately $262,000. The source of the funds for the acquisition of the Company was provided by committed equity capital contributed by certain equity funds managed by Apollo Management VII, L.P. (Apollo).

Our Merger was accounted for as a business combination using the acquisition method of accounting, whereby the purchase price was allocated to tangible and intangible assets acquired and liabilities assumed, based on their estimated fair market values. Fair value measurements have been applied based on assumptions that market participants would use in the pricing of the assets or liabilities. The purchase price allocation could change in subsequent periods, up to one year from the Merger date. Any subsequent changes to the purchase price allocation that result in material changes to our consolidated financial statements will be adjusted retroactively.

We applied the acquisition method of accounting in connection with the Merger. In conjunction with purchase accounting we:

- Recorded property and equipment, other assets, debt and non-controlling interest at their preliminarily estimated fair values;

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

- Recorded as goodwill the excess of consideration in the purchase transaction over the estimated fair value of net tangible and intangible assets.

Purchase of Great Wolf Resorts, Inc. common equity	$ 262,106
Less: Historical book value of Great Wolf Resorts, Inc. net assets acquired	105,414
Excess of purchase price over historical book value of net assets acquired	$ 156,692
Allocated to:	
Goodwill	$ 96,830
Property, plant and equipment	74,776

Table of Contents

Intangible assets	24,231
Investments in and advances to affiliates	219
Other assets	(9,801)
Debt	(19,502)
Non-controlling interest	(4,932)
Deferred tax liabilities	(5,129)
Total Adjustment	$ 156,692

As a result of the Merger, we had $96,830 of goodwill at May 4, 2012, all of which related to the application of purchase accounting in conjunction with the Merger. Some of the values and amounts used in the initial application of purchase accounting for our consolidated balance sheet were based on preliminary estimates and assumptions. We do not expect any of the goodwill amounts recorded in conjunction with the Merger to be deductible for tax purposes.

The following table presents the unaudited pro forma results as if the Merger and related financing had occurred as of January 1, 2011:

	Three months ended June 30,		Six months ended June 30,	
	2012	2011	2012	2011
Revenues	$ 79,167	$ 75,725	$ 155,956	$ 147,610
Net loss from continuing operations	(3,519)	(3,952)	(5,938)	(9,044)
Net loss attributable to Great Wolf Resorts, Inc.	(3,485)	(3,864)	(5,928)	(2,203)

5. INVESTMENT IN AFFILIATES

Our unconsolidated 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. The joint venture does not currently meet the significant subsidiary test threshold of SEC Regulation S-X Rule 3-09, *Separate financial statements of subsidiaries not consolidated and 50 percent or less owned persons*. Accordingly, summarized financial information for the joint venture is not required to be presented.

At June 30, 2012, the joint venture had aggregate outstanding indebtedness to third parties of $93,768. Neither joint venture partner guarantees the third party debt in the years presented. As of June 30, 2012 and December 31 2011, we have made combined loan and equity contributions, net of loan repayments, of $27,179, to the joint venture to fund a portion of construction costs of the resort. The loan we had extended to the joint venture was fully repaid in 2011.

We had receivables from the joint venture of $1,765 and $3,243 as of June 30, 2012 and December 31, 2011, respectively, that relate primarily to accrued preferred equity returns and management fees. We had payables to the joint venture of $21 and $27 as of June 30, 2012 and December 31, 2011, respectively. The amount of investment income and management fee income recorded by us is included in the Investment income affiliates and Management and other fees affiliates line items, respectively, on our consolidated statements of operations.

6. VARIABLE INTEREST ENTITIES

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

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

We have equity investments in the joint venture that owns the Great Wolf Lodge resort in Grand Mound, Washington as described in Note 5. We manage that resort and we have concluded that the joint venture is a variable interest entity due to the management contract that provides us with certain rights. However, we have concluded that we are not the primary beneficiary because the majority equity owner has substantive participating rights over the activities that most significantly impact the economic performance of the joint venture. As a result, we have concluded that power is shared between us and the other equity investor. As we share power with the majority equity owner, we are not the primary beneficiary of the joint venture and, therefore, we do not consolidate this entity. We have not provided any support to this entity that we were not contractually obligated to provide as of June 30, 2012 and December 31, 2011. Our maximum exposure to loss related to our involvement with this entity as of June 30, 2012 and 2011 is limited to the carrying value of our equity investments in the joint venture and receivables as of that date. Our exposure is limited because of the non-recourse nature of the borrowings of the joint venture. The total carrying values of those items on our balance sheet as of June 30, 2012 and December 31, 2011 is $26,429 and $27,554, respectively, and are included in the accounts receivable affiliates and investments in and advances to affiliates line items on our consolidated balance sheet.

7. SHARE-BASED COMPENSATION

Prior to the Merger on May 4, 2012, the Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorized us to grant up to 3,380,740 options, stock appreciation rights or shares of our common stock to employees and directors. Upon consummation of the Merger, the Plan was terminated. We have not issued any stock options or made any stock grants since the Merger.

We recognized share-based compensation expense of $2,557, $3,348, and $868, net of estimated forfeitures, for the period April 1, 2012 May 4, 2012, the period January 1, 2012 May 4, 2012, and May 5, 2012 June 30, 2012, respectively. The total income tax (benefit) expense recognized related to share-based compensation was $(22), $43, and $49, for the period April 1, 2012 May 4, 2012, the period January 1, 2012 May 4, 2012, and May 5, 2012 June 30, 2012, respectively.

We recognized share-based compensation expense of $547 and $1,130, net of estimated forfeitures, for the three months and six months ended June 30, 2011, respectively. The total income tax expense recognized related to share-based compensation was $12 and $25 for the three and six months ended June 30, 2011, respectively.

We recognized 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 June 30, 2012, there was no unrecognized compensation cost related to share-based compensation awards.

Stock Options

Prior to the Merger, we had 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 could be paid in cash, shares of common stock or a combination of cash and shares. Stock options expired ten years from the grant date and vested ratably over three years.

We recorded no stock option expense for the periods January 1, 2012 - March 31, 2012; April 1, 2012 - May 4, 2012; May 5, 2012 - June 30, 2012; and the three and six months ended June 30, 2012 or 2011. There were no stock options granted during the periods January 1, 2012 - March 31, 2012; April 1, 2012 - May 4, 2012; May 5, 2012 - June 30, 2012; and the three and six months ended June 30, 2011. Upon the consummation of the Merger, all of our outstanding stock options were cancelled for no consideration.

A summary of stock option activity during the period January 1, 2012 - May 4, 2012:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Number of shares under option:			
Outstanding at beginning of period	15,500	$ 17.44	3.02 years
Exercised			
Cancelled	(15,500)	$ 17.44	

Outstanding at end of period	
Exercisable at end of period	

There was also no stock option activity for the period May 5, 2012 - June 30, 2012.

Market Condition Share Awards

Prior to the Merger, certain employees were eligible to receive shares of our common stock in payment of market condition share awards granted to them in accordance with the terms thereof.

Table of Contents

We granted 407,593 and 444,002 market condition share awards during the period January 1, 2012 May 4, 2012 and the six months ended June 30, 2011, respectively. We recorded share-based compensation expense of $966, $1,493 and $867 for the period April 1, 2012 May 4, 2012 and the period January 1, 2012 May 4, 2012, and May 5, 2012 June 30, 2012, respectively. We recorded share-based compensation expense of $183 and $388 for the three and six months ended June 30, 2011, respectively.

Of the 2012 market condition shares granted:

255,107 were based on our common stock s performance in 2012 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. For shares that are earned, 1/3 of the shares were to vest on December 31, 2012, 1/3 vest on December 31, 2013, and 1/3 vest on December 31, 2014. The per share fair value of these market condition shares was $2.12 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	0.14%
Expected stock price volatility	49.92%
Expected stock price volatility (small-cap stock index)	29.14%

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 .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 10, 2010 through February 9, 2012.

Upon the consummation of the Merger, all of the 2012 market condition shares granted were cancelled for no consideration. Unrecognized expense of $542 was recorded during the period May 5, 2012 June 30, 2012.

76,243 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 were to 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 $2.05 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	0.14%
Expected stock price volatility	49.92%

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 .89-year treasury constant maturity. Our expected stock price volatility was estimated using daily returns data of our stock for the period February 10, 2010 through February 9, 2012.

Upon the consummation of the Merger, all of the 2012 market condition shares granted were cancelled for no consideration. Unrecognized expense of $156 was recorded during the period May 5, 2012 June 30, 2012.

76,243 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 were to 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 $2.22 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	0.14%
Expected stock price volatility	49.92%
Expected stock price volatility (small-cap stock index)	29.14%

20

Table of Contents

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 .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 10, 2010 through February 9, 2012.

Upon the consummation of the Merger, all of the 2012 market condition shares granted were cancelled for no consideration. Unrecognized expense of $170 was recorded during the period May 5, 2012 June 30, 2012.

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. For shares that were earned, 1/3 of the shares vest on December 31, 2011, 1/3 vest on December 31, 2012, and 1/3 vest on December 31, 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.

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

These shares vested upon consummation of the Merger, and the remaining unrecognized expense of $544 was recorded in the period ended May 4, 2012.

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.

The original share grant amount represented the number of shares that would be earned at a target level of performance. In conjunction with the signing of the Merger Agreement on March 12, 2012, these shares were deemed granted at the maximum level of performance. As a result, we issued 124,581 shares related to these market condition awards. Accordingly, we recorded $37 of additional compensation expense in the first quarter of 2012 related to our employees being granted the maximum level of shares rather than the target level of shares for these awards.

These shares vested upon consummation of the Merger, and the remaining unrecognized expense of $119 was recorded in the period ended May 4, 2012.

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.

The original share grant amount represented the number of shares that would be earned at a target level of performance. In conjunction with the signing of the Merger Agreement on March 12, 2012, these shares were deemed granted at the maximum level of performance. As a result, we issued 124,581 shares related to these market condition awards. Accordingly, we recorded $38 of additional compensation expense in the first quarter of 2012 related to our employees being granted the maximum level of shares rather than the target level of shares for these awards.

These shares vested upon consummation of the Merger, and the remaining unrecognized expense of $121 was recorded in the period ended May 4, 2012.

Of the 2010 market condition shares granted:

91,463 were based on our common stock s absolute performance during the three-year period 2010-2012. For shares that were 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.

The original share grant amount represented the number of shares that would be earned at a target level of performance. In conjunction with the signing of the Merger Agreement on March 12, 2012, these shares were deemed granted at the maximum level of performance. As a result, we issued 137,195 shares related to these market condition awards. Accordingly, we recorded $68 of additional compensation expense in the first quarter of 2012 related to our employees being granted the maximum level of shares rather than the target level of shares for these awards.

These shares vested upon consummation of the Merger, and the remaining unrecognized expense of $111 was recorded in the period ended May 4, 2012.

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.
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%

Table of Contents

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.

The original share grant amount represented the number of shares that would be earned at a target level of performance. In conjunction with the signing of the Merger Agreement on March 12, 2012, these shares were deemed granted at the maximum level of performance. As a result, we issued 137,195 shares related to these market condition awards. Accordingly, we recorded $70 of additional compensation expense in the first quarter of 2012 related to our employees being granted the maximum level of shares rather than the target level of shares for these awards.

These shares vested upon consummation of the Merger, and the remaining unrecognized expense of $114 was recorded in the period ended May 4, 2012.

Performance Share Awards

Prior to the Merger, certain employees were eligible to receive shares of our common stock in payment of performance share awards granted to them. Grantees of performance shares were 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 85,036 and 92,633 performance shares during the period January 1, 2012 May 4, 2012 and six months ended June 30, 2011, respectively. Shares granted in 2012 were to vest over a three year period, 2012-2014; and shares granted in 2011 were to vest over a three year period, 2011-2013.

The per share fair value of performance shares granted during the period January 1, 2012 May 4, 2012 and six months ended June 30, 2011 was $3.35 and $3.23, respectively, which represents the fair value of our common stock on the grant date. We recorded share-based compensation expense of $194 and $264 for the period April 1, 2012 May 4, 2012 and the period January 1, 2012 May 4, 2012, respectively. There was no share-based compensation expense for the period May 5, 2012 June 30, 2012. We recorded share-based compensation expense of $71 and $142 for the three and six months ended June 30, 2011, respectively. Since all shares originally granted were not earned, we recorded a reduction in expense of $19 and $16 during the period January 1, 2012 May 4, 2012 and six months ended June 30, 2011, respectively, related to the shares not issued.

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

- Employees earned and were issued 75,152 performance shares in February 2012 related to the 2011 grants and

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

Upon the consummation of the Merger, all of the 2012 performance share awards granted were cancelled for no consideration. Performance shares awards granted in 2010 and 2011 vested upon consummation of the merger, and the remaining unrecognized expense of $68 and $135, respectively, was recorded in the period ending May 4, 2012.

Deferred Compensation Awards

Pursuant to their employment arrangements, two 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 and our deferred compensation plan sold the shares held in that plan related to the deferred bonus payment. In 2012, the other executive who had deferred a bonus payment sold the shares in the deferred compensation plan. As a result, we have reclassified $2,200 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 share-based compensation income of $34 for the period January 1, 2012 May 4, 2012. There was no share-based compensation expense for the period May 5, 2012 June 30, 2012. We recorded share-based compensation income of $11 and $5, for the three and six months ended June 30, 2011, respectively.

Table of Contents

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.

Upon the consummation of the Merger, each non-vested share outstanding vested, was cancelled and converted into the right to receive the Offer Price and the remaining unrecognized expense of $1,323 was recorded in the period ended May 4, 2012.

A summary of non-vested shares activity for the period January 1, 2012 - May 4, 2012 is as follows:

	Shares	Weighted Average Grant Date Fair Value
Non-vested shares balance at beginning of period	910,678	$ 3.13
Granted	1,015,545	$ 2.43
Forfeited	(2,500)	$ 3.00
Vested	(1,923,723)	$ 2.76
Non-vested shares balance at end of period		$

There was no non-vested shares activity for the period May 5, 2012 - June 30, 2012.

We recorded share-based compensation expense related to non-vested shares of $1,396 and $1,644 for the period April 1, 2012 May 4, 2012 and the period January 1, 2012 May 4, 2012, respectively. There was no share-based compensation expense for the period May 5, 2012 June 30, 2012. We recorded share-based compensation expense related to non-vested shares of $260 and $588 for the three and six months ended June 30, 2011, respectively.

Vested Shares

During the six months ended June 30, 2011, our directors had the option to elect to have some or the entire cash portion of their annual fees paid in the form of shares of our common stock rather than cash. Directors making this election received shares having a market value equal to 125% of the cash they would otherwise receive. Shares issued in lieu of cash fee payments are fully vested upon issuance.

We recorded non-cash professional fees expense of $22 for the six months ended June 30, 2011, related to these elections to received shares in lieu of cash. We issued 10,188 shares in the six months ended June 30, 2011 related to these elections.

8. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	Successor June 30, 2012	Predecessor December 31, 2011
Land and improvements	$ 54,720	$ 57,665
Building and improvements	383,098	417,385
Furniture, fixtures and equipment	202,232	344,825
Construction in process	818	142
	640,868	820,017
Less accumulated depreciation	(7,620)	(243,755)
Property and equipment, net	$ 633,248	$ 576,262

Table of Contents

The above amounts as of June 30, 2012, include net fair value adjustments recorded as part of purchase accounting that increased the aggregate carrying value of property and equipment as of the Merger date (see footnote 4).

Depreciation expense for continuing operations was $7,620, $4,217 and $12,234 for the period May 5, 2012 through June 30, 2012, the period April 1, 2012 through May 4, 2012 and three months ended June 30, 2011, respectively.

Depreciation expense for continuing operations was $7,620, $15,623 and $24,397 for the period May 5, 2012 through June 30, 2012, the period January 1, 2012 through May 4, 2012 and six months ended June 30, 2011, respectively.

9. LONG-TERM DEBT

Long-term debt consists of the following:

	Carrying Value		Principal Amounts
	Successor	Predecessor	Successor
	June 30, 2012	December 31, 2011	June 30, 2012
Mortgage Debt:			
Traverse City/Kansas City mortgage loan	$ 62,732	$ 65,591	$ 64,733
Pocono Mountains mortgage loan	93,946	93,015	92,364
Concord mortgage loan	53,091	54,055	52,882
First mortgage notes (net of discount of $8,046 as of December 31, 2011)	261,011	221,954	230,000
Other Long-Term Debt:			
Junior subordinated debentures	60,842	80,545	80,545
Other		14	
	531,622	515,174	520,524
Less current portion of long-term debt	(67,363)	(67,678)	(67,363)
Total long-term debt	$ 464,259	$ 447,496	$ 453,161

The carrying value amounts as of June 30, 2012, include net fair value adjustments recorded as part of purchase accounting that increased the aggregate carrying value of debt as of the Merger date (see footnote 4). We are amortizing these adjustments as offsets to interest expense over the life of each loan, using the effective interest rate method. The unamortized fair value adjustment as of June 30, 2012 was $11,098.

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 June 30, 2012.

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 quarter ended June 30, 2012, the DSCR for this loan was 0.98, 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 June 30, 2012, 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 June 30, 2012, 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. The properties had a combined net book value of $73,780 as of June 30, 2012, and the amount of debt outstanding under the loan was $64,733 as of June 30, 2012.

Given improved operating trends and performance at the properties during 2011 and the six months ended June 30, 2012, we currently expect the properties to generate sufficient cash flow so that our subsidization of debt service, if any, for 2012 will be insignificant to our overall operations. As a result, we currently believe the most likely course of action for 2012 is to continue to operate these properties, assuming these trends continue.

Pocono Mountains Mortgage Loan This loan is secured by a mortgage on our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in January 2017. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2012.

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 This loan is secured by a mortgage on 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 June 30, 2012). This loan requires four quarterly principal payments of $125 each beginning October 1, 2011, and quarterly principal payments of $375 thereafter. The loan was amended in March 2012 to extend the maturity to December 31, 2016.

As part of the loan agreement, the lender requires excess cash from the Concord resort to be swept to the lender on a monthly basis. The lender will hold the excess cash until the end of each quarter and then will either fund the cash back to us to cover any projected cash shortfalls at the property or if there are no shortfalls projected, use the excess cash to repay the loan principal balance. The lender has a $25,000 loan principal guarantee from Great Wolf Resorts. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at June 30, 2012.

In connection with the refinancing of this loan in 2011 and the amendment of this loan in 2012, we were required to provide interest rate protection on a portion of the loan amount through the loan s maturity date. Therefore, we executed interest rate caps that cap the loan at 8.00% interest rate through December 2016. The interest rate caps were designated as ineffective cash flow hedges. We mark the interest rate caps to market and record the change to interest expense.

First Mortgage Notes In April 2010, we completed, in a private placement followed by a registered exchange offer, an offering 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. Prior to the Merger, we were amortizing the discount over the life of the Notes using the straight-line method, which approximated the effective interest method. As part of the acquisition method of accounting done in conjunction with the Merger, the Notes were recorded at fair value. 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.

Table of Contents

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 $1,550 in Trust I s common securities, representing 3% of the total capitalization of Trust I.

Trust I used the proceeds of the offering and our investment to purchase from us $51,550 of junior subordinated debentures with payment terms that mirror the distribution terms of the TPS. The indenture governing the debentures contains limitations on our ability, without the consent of the holders of the debentures, to make payments to our affiliates or for our affiliates to make payments to us if a default exists. The costs of the TPS offering totaled $1,600, including $1,500 of underwriting commissions and expenses and $100 of costs incurred directly by Trust I. Trust I paid these costs utilizing an investment from us. These costs are being amortized over a 30-year period. The proceeds from our debentures sale, net of the costs of the TPS offering and our investment in Trust I, were $48,400. We used the net proceeds to retire a construction loan.

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

Trust III used the proceeds of the offering and our investment to purchase from us $28,995 of junior subordinated debentures with payment terms that mirror the distribution terms of the TPS of Trust III 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. 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.

On March 12, 2012, in a privately-negotiated exchange with the holder of the TPS of Trust III , Great Wolf Capital Trust IV (Trust IV), a newly-formed Delaware statutory trust that is our subsidiary, issued $28,125 of new TPS in exchange for all $28,125 of TPS of Trust III. The new TPS pay holders cumulative cash distributions at an annual rate fixed at 7.90% through July 31, 2012 and at a floating annual rate equal to LIBOR plus 550 basis points thereafter. The new TPS mature on July 31, 2017 and are callable by the issuer at par after July 31, 2012. In conjunction with this transaction, Trust IV issued to us 870 common securities, which are all of the issued and outstanding common securities of Trust IV, with a liquidation amount of $870. In addition, in conjunction with this transaction, we issued to Trust IV $28,995 of junior subordinated debentures with payment terms that mirror the distribution terms of the TPS of Trust IV. Following the exchange transaction, the TPS of Trust III and the related junior subordinated debentures were cancelled.

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

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

Through June 30,	
2013	$ 4,449
2014	4,915

2015	64,028
2016	3,146
2017	363,442
Thereafter	80,545
Total	$ 520,525

27

Table of Contents

As discussed above, the Traverse City/Kansas City mortgage loan is classified as a current liability as of June 30, 2012, 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 $1,819 in 2013, $1,947 in 2014, and $60,967 in 2015.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). United States Generally Accepted Accounting Principles (GAAP) outlines a valuation framework and creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures. Certain assets and liabilities must be measured at fair value, and disclosures are required for items measured at fair value.

We measure our financial instruments using inputs from the following three levels of the fair value hierarchy. The three levels are as follows:

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

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

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

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

June 30, 2012

	Level 1	Level 2	Level 3	Total
Interest rate caps	$	$ 237	$	$ 237

December 31, 2011

	Level 1	Level 2	Level 3	Total
Interest rate caps	$	$ 77	$	$ 77

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 June 30, 2012, we estimate the total fair value of our long-term debt to be approximately equal to their total carrying value. Fair value of long-term debt and mortgage debt is considered a level 2 liability.

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.

11. LITIGATION

On March 14, 2012, a class action complaint was filed in the Delaware Court of Chancery against the Company, its directors, Apollo Management VII, L.P., Parent and Merger Sub. In that case, the plaintiff, on behalf of a putative class of stockholders, sought to enjoin the proposed transaction that was the subject of the Merger Agreement. Seven other lawsuits followed, four of which were filed in Delaware Chancery Court, two in the Circuit Court, Civil Division for Dane County in the State of Wisconsin (the Wisconsin State-court Actions), and one in the United States District Court for the Western District of Wisconsin (the Wisconsin Federal-court Action). The Delaware cases were consolidated into a single action (the Delaware Action).

Table of Contents

On April 25, 2012, the parties to the Delaware Action and the Wisconsin State-court Actions reached an agreement in principle to settle those cases. The proposed settlement, which is subject to court approval following notice to the class and a hearing, provides for the dismissal with prejudice of plaintiffs complaints and of all claims asserted therein. On April 30, 2012, the parties to the Wisconsin Federal-court Action agreed to settle that case, subject to court approval of the proposed class-wide settlement in the Delaware Action and entry of a final order dismissing the Delaware Action in its entirety. Pursuant to their agreement, the parties to the Wisconsin Federal-court Action filed with the court, on April 30, 2012, a stipulation providing that the Action be voluntarily dismissed with respect to all defendants and that such dismissal will be with prejudice as to the plaintiff upon the consummation of the settlement of the Delaware Action.

The Company, the members of the Board of Directors, Apollo Management VII, L.P., Parent and Merger Sub each have denied, and continue to deny, that they committed or attempted to commit any violation of law or breach of fiduciary duty owed to the Company and/or its stockholders, aided or abetted any breach of fiduciary duty, or otherwise engaged in any of the wrongful acts alleged in all of these cases. All of the defendants expressly maintain that they complied with their fiduciary and other legal duties. However, in order to avoid the costs, disruption and distraction of further litigation, and without admitting the validity of any allegation made in the actions or any liability with respect thereto, the defendants have concluded that it is desirable to settle the claims against them on the terms reflected in the proposed settlements.

The proposed settlements are subject to customary conditions including completion of appropriate settlement documentation. In addition, the parties to the Delaware Action and the Wisconsin State-court Actions have acknowledged that the plaintiffs and their counsel in those cases intend to petition the appropriate court or courts for an award of attorneys fees and expenses in connection with the cases. Any award of fees and expenses to plaintiffs counsel is subject to approval by the appropriate court or courts, and the defendants have reserved the right to oppose the amount of any petition for fees and expenses.

The proposed settlements are not final, and no fee petition has yet been submitted or approved. Due to these uncertainties we are unable to predict the outcome of the litigations or to quantify any impact they may eventually have on our Company. An unfavorable outcome in these cases could have a material adverse effect on our financial condition and results of operations.

12. 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:	Predecessor March 23, 2011
Total assets	$ 6,463
Total liabilities	$ 13,587

Table of Contents

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.

	Six months ended June 30, 2012 Successor/Predecessor	2011 Predecessor
Revenues	$	$ 1,578
Operating expenses	(17)	(1,360)
Gain on sale		6,667
Interest expense, net of interest income		(76)
(Loss) income from discontinued operations, net of tax	$ (17)	$ 6,809

13. 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 Issuer) 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 balances sheets of the Company (Parent), the Issuers, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries as of June 30, 2012 and December 31, 2011, the condensed consolidating statements of operations for the period May 5, 2012 through June 30, 2012, period April 1, 2012 through May 4, 2012, three months ended June 30, 2011, period January 1, 2012 through May 4, 2012 and six months ended June 30, 2011 and the condensed consolidating statements of cash flows for the period May 5, 2012 through June 30, 2012, period January 1, 2012 through May 4, 2012 and six months ended June 30, 2011.

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

June 30, 2012

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 11,136	$ 6,753	$ (206)	$ 7,175	$	$ 24,858
Escrows				4,973		4,973
Accounts receivable	445	(2,204)	4,448	1,647		4,336
Accounts receivable affiliate	(30)	(1,710)	2,287	1,218		1,765
Accounts receivable consolidating entities	461,133	600,804	477,196	193,044	(1,732,177)	
Inventory			3,263	4,764		8,027
Other current assets	1,334		1,963	6,056		9,353
Total current assets	474,018	603,643	488,951	218,877	(1,732,177)	53,312
Property and equipment, net			335,757	297,491		633,248
Investments in consolidating entities	263,985	267,014			(530,999)	
Investments in and advances to affiliate			779	24,665		25,444
Other assets	2,474		7,346	236		10,056
Goodwill			42,973	53,857		96,830
Intangible assets			47,786	3,019		50,805
Total assets	$ 740,477	$ 870,657	$ 923,592	$ 598,145	$ (2,263,176)	$ 869,695
LIABILITIES AND EQUITY						
Current liabilities:						
Current portion of long-term debt	$	$	$	$ 67,363	$	$ 67,363
Accounts payable	25		3,788	3,758		7,571
Accounts payable affiliate				21		21
Accounts payable consolidating entities	399,242	339,395	688,395	305,145	(1,732,177)	
Accrued interest payable	731	6,253		986		7,970
Accrued expenses	657	13	11,754	8,635		21,059
Advance deposits			7,371	6,168		13,539
Other current liabilities	3,033		907	1,210		5,150
Total current liabilities	403,688	345,661	712,215	393,286	(1,732,177)	122,673
Mortgage debt		261,011		142,406		403,417
Other long-term debt	60,842					60,842
Deferred Tax liability	17,145					17,145
Deferred compensation liability			1,940			1,940
Total liabilities	481,675	606,672	714,155	535,692	(1,732,177)	606,017
Commitments and contingencies						
Great Wolf Resorts Inc. stockholders equity:						
Common stock						
Preferred stock						
Additional paid-in-capital	264,064	266,994	207,096	59,898	(533,988)	264,064

Accumulated deficit	(5,262)	(3,009)	2,341	(2,321)	2,989	(5,262)
Total Great Wolf Resorts, Inc. stockholders equity	258,802	263,985	209,437	57,577	(530,999)	258,802
Noncontrolling interest				4,876		4,876
Total equity	258,802	263,985	209,437	62,453	(530,999)	263,678
Total liabilities and equity	$ 740,477	$ 870,657	$ 923,592	$ 598,145	$ (2,263,176)	$ 869,695

Table of Contents

CONSOLIDATING BALANCE SHEET

December 31, 2011

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
ASSETS						
Current assets:						
Cash and cash equivalents	$ 10,039	$ 15,980	$ 814	$ 6,934	$	$ 33,767
Escrows				2,618		2,618
Accounts receivable	327		1,335	1,998		3,660
Accounts receivable affiliate			1,461	1,782		3,243
Accounts receivable consolidating entities	10,417	472,289	582,378	206,399	(1,271,483)	
Inventory			2,882	4,688		7,570
Other current assets	1,138		1,673	3,401		6,212
Total current assets	21,921	488,269	590,543	227,820	(1,271,483)	57,070
Property and equipment, net			330,496	245,766		576,262
Investment in consolidating entities	200,123	274,959			(475,082)	
Investment in and advances to affiliate				24,311		24,311
Other assets	4,272	6,702	7,964	1,618		20,556
Goodwill	1,365					1,365
Intangible assets			4,668	20,642		25,310
Total assets	$ 227,681	$ 769,930	$ 933,671	$ 520,157	$ (1,746,565)	$ 704,874
LIABILITIES AND EQUITY						
Current liabilities:						
Current portion of long-term debt	$	$	$ 14	$ 67,664	$	$ 67,678
Accounts payable	1		1,907	3,393		5,301
Accounts payable affiliate			10	17		27
Accounts payable consolidating entities	5,730	341,588	747,086	177,079	(1,271,483)	
Accrued interest payable	723	6,253		1,036		8,012
Accrued expenses	866	12	13,702	9,631		24,211
Advance deposits			2,685	5,030		7,715
Other current liabilities	4,384		1,132	2,013		7,529
Total current liabilities	11,704	347,853	766,536	265,863	(1,271,483)	120,473
Mortgage debt		221,954		144,997		366,951
Other long-term debt	80,545					80,545
Deferred tax liability	11,907					11,907
Deferred compensation liability			1,502			1,502
Total liabilities	104,156	569,807	768,038	410,860	(1,271,483)	581,378
Commitments and contingencies						
Great Wolf Resorts stockholders equity:						
Common stock	325					325
Preferred stock						

Additional paid-in-capital	404,714	456,693	163,514	293,179	(913,386)	404,714
Accumulated deficit	(281,314)	(256,570)	2,119	(183,853)	438,304	(281,314)
Deferred compensation	(200)					(200)
Total Great Wolf Resorts stockholders equity	123,525	200,123	165,633	109,326	(475,082)	123,525
Noncontrolling interest				(29)		(29)
Total equity	123,525	200,123	165,633	109,297	(475,082)	123,496
Total liabilities and equity	$ 227,681	$ 769,930	$ 933,671	$ 520,157	$ (1,746,565)	$ 704,874

32

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Period May 5, 2012 through June 30, 2012

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 15,258	$ 12,796	$	$ 28,054
Food and beverage			4,291	3,830		8,121
Other			3,433	3,834		7,267
Management and other fees	52		3,830	3	(3,405)	480
Management and other fees affiliates			535			535
	52		27,347	20,463	(3,405)	44,457
Other revenue from managed properties			1,878			1,878
Other revenue from managed properties affiliates			1,729			1,729
Total revenues	52		30,954	20,463	(3,405)	48,064
Operating expenses by department:						
Rooms			2,391	2,394	(563)	4,222
Food and beverage			3,323	2,806		6,129
Other			2,923	3,662		6,585
Other operating expenses:						
Selling, general and administrative	1,349	20	9,795	5,054	(2,842)	13,376
Property operating costs			2,653	2,221		4,874
Depreciation and amortization			3,827	3,952		7,779
	1,349	20	24,912	20,089	(3,405)	42,965
Other expenses from managed properties			1,878			1,878
Other expenses from managed properties affiliates			1,729			1,729
Total operating expenses	1,349	20	28,519	20,089	(3,405)	46,572
Net operating (loss) income	(1,297)	(20)	2,435	374		1,492
Investment income affiliates				(137)		(137)
Interest income	(31)					(31)
Interest expense	931	3,009		2,319		6,259
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(2,197)	(3,029)	2,435	(1,808)		(4,599)
Income tax expense	56		94	129		279
Equity in loss (income) of unconsolidated affiliates, net of tax	3,009	(20)		402	(2,989)	402
Net (loss) income from continuing operations	(5,262)	(3,009)	2,341	(2,339)	2,989	(5,280)
Discontinued operations, net of tax				(7)		(7)

Net (loss) income	(5,262)	(3,009)	2,341	(2,332)	2,989	(5,273)
Net income attributable to noncontrolling interest, net of tax				(11)		(11)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (5,262)	$ (3,009)	$ 2,341	$ (2,321)	$ 2,989	$ (5,262)

33

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Period April 1, 2012 through May 4, 2012

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 8,714	$ 9,654	$	$ 18,368
Food and beverage			2,225	2,501		4,726
Other			1,918	2,697		4,615
Management and other fees	30		2,506	2	(1,837)	701
Management and other fees affiliates			441			441
	30		15,804	14,854	(1,837)	28,851
Other revenue from managed properties			1,123			1,123
Other revenue from managed properties affiliates			1,129			1,129
Total revenues	30		18,056	14,854	(1,837)	31,103
Operating expenses by department:						
Rooms			1,442	1,444	(368)	2,518
Food and beverage			1,734	1,758		3,492
Other			1,580	2,138		3,718
Other operating expenses:						
Selling, general and administrative	9,857	13	7,279	3,946	(1,469)	19,626
Property operating costs			1,531	2,080		3,611
Depreciation and amortization	15	131	2,265	2,039		4,450
Loss on disposition of assets			47			47
	9,872	144	15,878	13,405	(1,837)	37,462
Other expenses from managed properties			1,123			1,123
Other expenses from managed properties affiliates			1,129			1,129
Total operating expenses	9,872	144	18,130	13,405	(1,837)	39,714
Net operating (loss) income	(9,842)	(144)	(74)	1,449		(8,611)
Investment income affiliates				(83)		(83)
Interest income	(21)	(4)		1		(24)
Interest expense	595	2,500		1,264		4,359
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(10,416)	(2,640)	(74)	267		(12,863)
Income tax expense (benefit)	18		14	(138)		(106)
Equity in loss (income) of unconsolidated affiliates, net of tax	1,849	(791)		(458)	(1,058)	(458)
Net (loss) income from continuing operations	(12,283)	(1,849)	(88)	863	1,058	(12,299)

Discontinued operations, net of tax				(13)		(13)
Net (loss) income	(12,283)	(1,849)	(88)	876	1,058	(12,286)
Net income attributable to noncontrolling interest, net of tax				(3)		(3)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (12,283)	$ (1,849)	$ (88)	$ 879	$ 1,058	$ (12,283)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Three months ended June 30, 2011

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 23,286	$ 21,545	$	$ 44,831
Food and beverage			6,546	5,443		11,989
Other			5,409	6,130		11,539
Management and other fees	128		5,904	6	(5,384)	654
Management and other fees affiliates			1,024			1,024
	128		42,169	33,124	(5,384)	70,037
Other revenue from managed properties			2,945			2,945
Other revenue from managed properties affiliates			2,743			2,743
Total revenues	128		47,857	33,124	(5,384)	75,725
Operating expenses by department:						
Rooms			3,849	3,627	(900)	6,576
Food and beverage			5,102	4,187		9,289
Other			4,378	4,767		9,145
Other operating expenses:						
Selling, general and administrative	645	35	12,010	8,633	(4,399)	16,924
Property operating costs			3,999	4,857		8,856
Depreciation and amortization	39	347	6,381	6,548		13,315
Loss on disposition of assets			21	1,017		1,038
	684	382	35,740	33,636	(5,299)	65,143
Other expenses from managed properties			2,945			2,945
Other expenses from managed properties affiliates			2,743			2,743
Total operating expenses	684	382	41,128	33,636	(5,299)	70,831
Net operating (loss) income	(556)	(382)	6,429	(512)	(85)	4,894
Investment income affiliates				(220)		(220)
Interest income	(48)	(2)		(1)		(51)
Interest expense	1,584	6,636	1	3,887		12,108
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(2,092)	(7,016)	6,428	(4,178)	(85)	(6,943)
Income tax (benefit) expense	55		123	170		348
Equity in loss (income) of unconsolidated affiliates, net of tax	4,712	(2,304)		(344)	(2,408)	(344)
Net (loss) income from continuing operations	(6,859)	(4,712)	6,305	(4,004)	2,323	(6,947)

Discontinued operations, net of tax				19	(84)	(65)
Net (loss) income	(6,859)	(4,712)	6,305	(4,023)	2,407	(6,882)
Net income attributable to noncontrolling interest, net of tax				(23)		(23)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (6,859)	$ (4,712)	$ 6,305	$ (4,000)	$ 2,407	$ (6,859)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Period January 1, 2012 through May 4, 2012

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 30,243	$ 33,550	$	$ 63,793
Food and beverage			8,399	8,874		17,273
Other			7,206	8,714		15,920
Management and other fees	191		8,872	7	(7,672)	1,398
Management and other fees affiliates			1,414			1,414
	191		56,134	51,145	(7,672)	99,798
Other revenue from managed properties			4,193			4,193
Other revenue from managed properties affiliates			3,901			3,901
Total revenues	191		64,228	51,145	(7,672)	107,892
Operating expenses by department:						
Rooms			5,325	5,412	(1,279)	9,458
Food and beverage			6,466	6,480		12,946
Other			5,908	7,542		13,450
Other operating expenses:						
Selling, general and administrative	15,470	59	20,803	12,266	(6,393)	42,205
Property operating costs			5,266	6,081		11,347
Depreciation and amortization	53	480	8,391	7,545		16,469
Loss on disposition of assets			47			47
	15,523	539	52,206	45,326	(7,672)	105,922
Other expenses from managed properties			4,193			4,193
Other expenses from managed properties affiliates			3,901			3,901
Total operating expenses	15,523	539	60,300	45,326	(7,672)	114,016
Net operating (loss) income	(15,332)	(539)	3,928	5,819		(6,124)
Investment income affiliates				(303)		(303)
Interest income	(74)	(7)		(1)		(82)
Interest expense	2,179	9,136		4,701		16,016
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(17,437)	(9,668)	3,928	1,422		(21,755)
Income tax expense	66		141	62		269
Equity in loss (income) of unconsolidated affiliates, net of tax	3,978	(5,690)		(551)	1,712	(551)
Net (loss) income from continuing operations	(21,481)	(3,978)	3,787	1,911	(1,712)	(21,473)

Discontinued operations, net of tax				23		23
Net (loss) income	(21,481)	(3,978)	3,787	1,888	(1,712)	(21,496)
Net income attributable to noncontrolling interest, net of tax				(15)		(15)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (21,481)	$ (3,978)	$ 3,787	$ 1,903	$ (1,712)	$ (21,481)

36

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS

Six months ended June 30, 2011

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Revenues:						
Rooms	$	$	$ 43,428	$ 43,590	$	$ 87,018
Food and beverage			12,067	11,124		23,191
Other			10,350	12,368		22,718
Management and other fees	283		11,632	24	(10,532)	1,407
Management and other fees affiliates			2,027			2,027
	283		79,504	67,106	(10,532)	136,361
Other revenue from managed properties			5,782			5,782
Other revenue from managed properties affiliates			5,467			5,467
Total revenues	283		90,753	67,106	(10,532)	147,610
Operating expenses by department:						
Rooms			7,249	7,121	(1,747)	12,623
Food and beverage			9,370	8,379		17,749
Other			8,342	10,220		18,562
Other operating expenses:						
Selling, general and administrative	1,538	68	24,489	16,427	(8,617)	33,905
Property operating costs			8,112	9,168		17,280
Depreciation and amortization	77	673	12,734	13,079		26,563
Loss on disposition of property			21	1,017		1,038
	1,615	741	70,317	65,411	(10,364)	127,720
Other expenses from managed properties			5,782			5,782
Other expenses from managed properties affiliates			5,467			5,467
Total operating expenses	1,615	741	81,566	65,411	(10,364)	138,969
Net operating (loss) income	(1,332)	(741)	9,187	1,695	(168)	8,641
Investment income affiliates				(462)		(462)
Interest income	(97)	(5)		(4)		(106)
Interest expense	3,168	13,272	1	7,764		24,205
(Loss) income from continuing operations before income taxes and equity in income of unconsolidated affiliates	(4,403)	(14,008)	9,186	(5,603)	(168)	(14,996)
Income tax expense	64		227	330		621
Equity in loss (income) of unconsolidated affiliates, net of tax	3,858	(10,150)		(451)	6,292	(451)
Net (loss) income from continuing operations	(8,325)	(3,858)	8,959	(5,482)	(6,460)	(15,166)

Discontinued operations, net of tax				(6,641)	(168)	(6,809)
Net (loss) income	(8,325)	(3,858)	8,959	1,159	(6,292)	(8,357)
Net income attributable to noncontrolling interest, net of tax				(32)		(32)
Net (loss) income attributable to Great Wolf Resorts, Inc.	$ (8,325)	$ (3,858)	$ 8,959	$ 1,191	$ (6,292)	$ (8,325)

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Period May 5, 2012 through June 30, 2012

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:						
Net (loss) income	$ (5,262)	$ (3,009)	$ 2,341	$ (2,332)	$ 2,989	$ (5,273)
Adjustment to reconcile net (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization			3,827	3,952		7,779
Bad debt expense			7	2		9
Amortization of debt fair value	(58)	(889)		60		(887)
Non-cash employee compensation and professional fees expense			868			868
Equity in losses (income) of affiliates	3,009	(20)		423	(2,989)	423
Deferred tax benefit	36					36
Changes in operating assets and liabilities	62,535	137,928	(64,230)	(138,243)		(2,010)
Net cash provided by (used in) operating activities	60,260	134,010	(57,187)	(136,138)		945
Investing activities:						
Capital expenditures for property and equipment			(1,332)	(1,932)		(3,264)
Investment in development			(14)			(14)
Increase in restricted cash				(1,279)		(1,279)
Net cash used in investing activities			(1,346)	(3,211)		(4,557)
Financing activities:						
Principal payments on debt				(392)		(392)
Payment of loan costs	(4)					(4)
Member contributions	1,091					1,091
Advances from consolidating entities, net	(73,551)	(131,166)	62,268	142,449		
Net cash (used in) provided by financing activities	(72,464)	(131,166)	62,268	142,057		695
Net (decrease) increase in cash and cash equivalents	(12,204)	2,844	3,735	2,708		(2,917)
Cash and cash equivalents, beginning of period	23,340	3,909	(3,941)	4,467		27,775
Cash and cash equivalents, end of period	$ 11,136	$ 6,753	$ (206)	$ 7,175	$	$ 24,858

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Period January 1, 2012 through May 4, 2012

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:						
Net (loss) income	$ (21,481)	$ (3,978)	$ 3,787	$ 1,888	$ (1,712)	$ (21,496)
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	53	480	8,391	7,545		16,469
Bad debt expense			1	25		26
Non-cash employee compensation and professional fees expense			3,348			3,348
Loss on disposition of assets			47			47
Equity in (income) losses of affiliates	3,978	(5,690)		(559)	1,712	(559)
Deferred tax benefit	73					73
Changes in operating assets and liabilities	14,315	(3,747)	(3,218)	(3,580)		3,770
Net cash (used in) provided by operating activities	(3,062)	(12,935)	12,356	5,319		1,678
Investing activities:						
Capital expenditures for property and equipment			(1,248)	(989)		(2,237)
Investment in development			(75)			(75)
Proceeds from sale of assets			3			3
Increase in restricted cash				(3,464)		(3,464)
Net cash (used in) provided in investing activities			(1,320)	(4,453)		(5,773)
Financing activities:						
Principal payments on debt		527	(14)	(2,290)		(1,777)
Payment of loan costs	3	(121)		(2)		(120)
Advances from consolidating entities, net	16,360	458	(15,777)	(1,041)		
Net cash provided by (used in) financing activities	16,363	864	(15,791)	(3,333)		(1,897)
Net (decrease) increase in cash and cash equivalents	13,301	(12,071)	(4,755)	(2,467)		(5,992)
Cash and cash equivalents, beginning of period	10,039	15,980	814	6,934		33,767
Cash and cash equivalents, end of period	$ 23,340	$ 3,909	$ (3,941)	$ 4,467	$	$ 27,775

Table of Contents

UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF CASH FLOWS

Six months ended June 30, 2011

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
Operating activities:						
Net (loss) income	$ (8,325)	$ (3,858)	$ 8,959	$ 1,159	$ (6,292)	$ (8,357)
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	77	673	12,734	13,180		26,664
Bad debt expense			1	24		25
Non-cash employee compensation and professional fees expense			1,130			1,130
Loss on disposition of assets			21	1,017		1,038
Gain on disposition of property included in discontinued operations				(6,667)		(6,667)
Equity in loss (income) of unconsolidated affiliates	3,858	(10,150)		(494)	6,292	(494)
Deferred tax expense	106					106
Changes in operating assets and liabilities	(868)	(675)	(2,399)	(4,777)		(8,719)
Net cash (used in) provided by operating activities	(5,152)	(14,010)	20,446	3,442		4,726
Investing activities:						
Capital expenditures for property and equipment			(2,041)	(3,133)		(5,174)
Loan repayment from unconsolidated affiliates				807		807
Investment in development			(168)			(168)
Proceeds from sale of a discontinued operation				4,200		4,200
(Increase) decrease in restricted cash	(1,000)			665		(335)
Net cash (used in) provided in investing activities	(1,000)		(2,209)	2,539		(670)
Financing activities:						
Principal payments on debt		766	(16)	(3,221)		(2,471)
Payment of loan costs	(50)	(115)		(76)		(241)
Advances from consolidating entities, net	6,180	15,667	(20,167)	(1,680)		
Net cash provided by (used in) financing activities	6,130	16,318	(20,183)	(4,977)		(2,712)
Net (decrease) increase in cash and cash equivalents	(22)	2,308	(1,946)	1,004		1,344
Cash and cash equivalents, beginning of period	10,047	24,168	(328)	3,101		36,988
Cash and cash equivalents, end of period	$ 10,025	$ 26,476	$ (2,274)	$ 4,105	$	$ 38,332

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.

As described in Note 2 to the condensed consolidated financial statements, in connection with the preparation of the condensed consolidated financial statements for the second quarter of 2012, we identified an error in the manner in which deferred tax balances were calculated. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, Materiality), we assessed the materiality of the error and concluded that the error was not material to any of our previously issued financial statements. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements), we will revise our previously issued financial statements to correct the effect of this error. This non-cash revision does not impact our operating income or cash flows for any prior period.

As a result of the May 4, 2012 merger with K-9 Acquisition, Inc., we have a Predecessor period from January 1, 2012 to May 4, 2012 and a Successor period from May 5, 2012 to June 30, 2012. In order to present Management s Discussion and Analysis in a way that offers investors a meaningful period to period comparison, we have combined Predecessor and Successor periods to arrive at the three and six months ended June 30, 2012 amounts and compared to the Predecessor three and six month periods ended June 30, 2011, however these combined results are considered non-GAAP financial measures.

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 925 square feet.

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

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.

On May 4, 2012, the Company merged with K-9 Acquisition, Inc., a Delaware corporation (Merger Sub) (the Merger). Although the Company continued as the same legal entity after the Merger, the Company s capital structure changed significantly as a result of the Merger and our financial statement presentations distinguish between a Predecessor for periods prior to the Merger and a Successor for periods subsequent to the Merger. The Merger was accounted for as a business combination using the acquisition method of accounting and Successor financial statements reflect a new basis of accounting that is based on the fair value of assets acquired and liabilities assumed as of the effective time of the Merger. The determination of these fair values reflects appraisals prepared by independent third parties and is based on actual tangible and identifiable intangible assets and liabilities that existed as of the effective time of the Merger. As a result of the application of the acquisition method of accounting as of the effective time of the Merger, the financial statements for the Predecessor period and for the Successor period are presented on different bases and are, therefore, not comparable.

Table of Contents

The following table presents an overview of our portfolio of resorts. As of June 30, 2012, 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	Indoor Entertainment Area (1)
Wisconsin Dells, WI (3)		1997	385(2)	102,000
Sandusky, OH (3)		2001	271	41,000
Traverse City, MI	100%	2003	280	57,000
Kansas City, KS	100%	2003	281	57,000
Williamsburg, VA (4)	100%	2005	405	87,000
Pocono Mountains, PA (4)	100%	2005	401	101,000
Niagara Falls, ONT (5)		2006	406	104,000
Mason, OH (4)	100%	2006	401	105,000
Grapevine, TX (4)	100%			