CORE MOLDING TECHNOLOGIES INC
Form 10-Q
November 15, 2010

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

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

For the quarterly period ended September 30, 2010
OR

o **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 001-12505
CORE MOLDING TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	31-1481870
(State or other jurisdiction incorporation or organization)	(I.R.S. Employer Identification No.)
800 Manor Park Drive, Columbus, Ohio	43228-0183
(Address of principal executive office)	(Zip Code)

Registrant s telephone number, including area code (614) 870-5000

N/A

Former name, former address and former fiscal year, if changed since last report.

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 þ NO o

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 o NO o

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 definition of accelerated filer, large accelerated filer, and smaller reporting company, in Rule 12b-2 of the Exchange Act (Check one).

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company þ

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

As of November 12, 2010, the latest practicable date, 7,083,176 shares of the registrant s common stock were issued and outstanding.

Table of Contents

Part I Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets 3

Consolidated Statements of Operations 4

Consolidated Statement of Stockholders Equity 5

Consolidated Statements of Cash Flows 6

Notes to Consolidated Financial Statements 7

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations 17

Item 3. Quantitative and Qualitative Disclosures About Market Risk 24

Item 4T. Controls and Procedures 25

Part II Other Information 26

Item 1. Legal Proceedings 26

Item 1A. Risk Factors 26

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds 26

Item 3. Defaults Upon Senior Securities 26

Item 4. Reserved 26

Item 5. Other Information 26

Item 6. Exhibits 26

Signatures 27

Index to Exhibits 28

Ex-10(a)
Ex-10(b)
Ex-31(a)
Ex-31(b)
Ex-32(a)
Ex-32(b)

2

Table of Contents

Part 1 Financial Information
Core Molding Technologies, Inc. and Subsidiaries
Unaudited Consolidated Balance Sheets

	September 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 2,478,316	$ 4,141,838
Accounts receivable (less allowance for doubtful accounts: September 30, 2010 - $91,000; December 31, 2009 - $113,000)	14,288,685	11,936,335
Inventories:		
Finished goods	1,599,877	863,166
Work in process	1,240,997	1,253,975
Stores	5,411,597	4,896,221
Total inventories	8,252,471	7,013,362
Deferred tax asset-current portion	1,195,831	1,195,831
Foreign sales tax receivable	849,374	652,155
Prepaid expenses and other current assets	1,162,445	1,021,093
Tooling in progress	453,649	
Income tax receivable	335,147	562,176
Total current assets	29,015,918	26,522,790
Property, plant and equipment	83,305,014	81,670,080
Accumulated depreciation	(39,402,698)	(36,726,836)
Property, plant and equipment net	43,902,316	44,943,244
Deferred tax asset	2,095,651	6,570,802
Goodwill	1,097,433	1,097,433
Other assets	27,450	42,029
Total Assets	$ 76,138,768	$ 79,176,298
Liabilities and Stockholders Equity		
Liabilities:		
Current liabilities		
Current portion of long-term debt	$ 4,457,849	$ 3,675,005
Current portion of postretirement benefits liability	673,000	667,000
Accounts payable	6,945,222	4,805,468
Tooling in progress		484,786
Compensation and related benefits	2,148,836	2,400,587
Interest payable	71,221	102,069
Other	1,041,660	800,912

Total current liabilities	15,337,788	12,935,827
Long-term debt	14,199,997	17,732,842
Interest rate swaps	514,442	198,809
Postretirement benefits liability	9,199,598	18,076,696
Commitments and Contingencies		
Stockholders Equity:		
Preferred stock $0.01 par value, authorized shares 10,000,000; Outstanding shares: 0 at September 30, 2010 and December 31, 2009		
Common stock $0.01 par value, authorized shares 20,000,000; Outstanding shares: 6,861,383 at September 30, 2010 and 6,799,641 at December 31, 2009	68,614	67,996
Paid-in capital	23,692,877	23,336,197
Accumulated other comprehensive income (loss), net of income taxes	3,927,231	(1,805,897)
Treasury stock	(26,226,440)	(26,179,054)
Retained earnings	35,424,661	34,812,882
Total stockholders equity	36,886,943	30,232,124
Total Liabilities and Stockholders Equity	$ 76,138,768	$ 79,176,298

See notes to unaudited consolidated financial statements.

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Operations
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net sales:				
Products	$ 23,041,088	$ 19,801,193	$ 64,210,313	$ 54,275,278
Tooling	2,253,508	4,624,339	5,002,115	5,834,479
Total sales	25,294,596	24,425,532	69,212,428	60,109,757
Total cost of sales	22,160,682	20,441,551	58,575,785	53,568,170
Gross margin	3,133,914	3,983,981	10,636,643	6,541,587
Total selling, general and administrative expense	2,289,262	2,131,030	6,908,532	6,886,771
Income (loss) before interest and taxes	844,652	1,852,951	3,728,111	(345,184)
Interest expense	362,614	516,904	1,240,087	657,298
Income (loss) before income taxes	482,038	1,336,047	2,488,024	(1,002,482)
Income tax expense (benefit)	174,620	486,685	1,876,245	(369,540)
Net income (loss)	$ 307,418	$ 849,362	$ 611,779	$ (632,942)
Net income (loss) per common share:				
Basic	$ 0.04	$ 0.13	$ 0.09	$ (0.09)
Diluted	$ 0.04	$ 0.12	$ 0.09	$ (0.09)
Weighted average shares outstanding:				
Basic	6,850,424	6,794,005	6,822,685	6,768,467
Diluted	7,108,977	6,838,815	7,070,887	6,811,515

See notes to unaudited consolidated financial statements.

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statement of Stockholders Equity
(Unaudited)

	Common Stock Outstanding		Paid-In	Retained	Accumulated Other Comprehensive Income	Treasury	Total Stockholders
	Shares	**Amount**	**Capital**	**Earnings**	**(Loss)**	**Stock**	**Equity**
Balance at January 1, 2010	6,799,641	$ 67,996	$ 23,336,197	$ 34,812,882	$ (1,805,897)	$ (26,179,054)	$ 30,232,124
Net income				611,779			611,779
Change in postretirement benefits, net of tax of $3,177,701					5,676,298		5,676,298
Change in interest rate swaps, net of tax of $29,275					56,830		56,830
Comprehensive income							6,344,907
Common stock issued	28,300	283	83,201				83,484
Purchase of treasury stock	(9,250)	(92)				(47,386)	(47,478)
Restricted stock issued	42,692	427					427
Share-based compensation			273,479				273,479
Balance at September 30, 2010	6,861,383	$ 68,614	$ 23,692,877	$ 35,424,661	$ 3,927,231	$ (26,226,440)	$ 36,886,943

See notes to unaudited consolidated financial statements.

5

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
Cash flows from operating activities:		
Net income (loss)	$ 611,779	$ (632,942)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	2,994,043	2,858,169
Deferred income taxes	1,474,142	(64,667)
Mark-to-market of interest rate swaps	380,739	(134,365)
Net postretirement benefits settlement loss	374,402	
Share-based compensation	273,906	266,797
Loss on disposal of assets	14,277	31,405
Gain on translation of foreign currency financial statements	(82,974)	(70,908)
Change in operating assets and liabilities:		
Accounts receivable	(2,352,349)	1,043,611
Inventories	(1,239,109)	2,962,286
Prepaid and other assets	(860,513)	(335,728)
Accounts payable	2,157,693	(2,295,039)
Accrued and other liabilities	(299,701)	(637,250)
Partial settlement of postretirement benefits liability	(1,256,650)	
Postretirement benefits liability	680,182	743,967
Net cash provided by operating activities	2,869,867	3,735,336
Cash flows from investing activities:		
Purchase of property, plant and equipment	(1,866,872)	(9,776,993)
Proceeds from sale of property, plant and equipment		18,000
Net cash used in investing activities	(1,866,872)	(9,758,993)
Cash flows from financing activities:		
Financing costs for new credit agreement		(224,321)
Gross repayments on line of credit		(34,389,061)
Gross borrowings on line of credit		33,195,096
Payments of principal on capex loan	(1,285,714)	(571,429)
Payments of principal on term loan	(964,287)	(964,287)
Payment of principal on industrial revenue bond	(500,000)	(460,000)

Borrowings on construction loans		10,278,663
Proceeds from issuance of common stock	83,484	
Net cash (used in) provided by financing activities	(2,666,517)	6,864,661
Net change in cash and cash equivalents	(1,663,522)	841,004
Cash and cash equivalents at beginning of period	4,141,838	
Cash and cash equivalents at end of period	$ 2,478,316	$ 841,004
Cash paid for:		
Interest	$ 760,460	$ 738,121
Income taxes (net of tax refunds)	$ 360,624	$ 275,884
Non Cash:		
Fixed asset purchases in accounts payable	$ 41,595	$ 58,218

See notes to unaudited consolidated financial statements.

Table of Contents

Core Molding Technologies, Inc. and Subsidiaries
Notes to Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q and include all of the information and disclosures required by accounting principles generally accepted in the United States of America for interim reporting, which are less than those required for annual reporting. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (all of which are normal and recurring in nature) necessary to present fairly the financial position of Core Molding Technologies, Inc. and its subsidiaries (Core Molding Technologies or the Company) at September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and cash flows for the nine months ended September 30, 2010. The Notes to Consolidated Financial Statements, which are contained in the 2009 Annual Report to Shareholders, should be read in conjunction with these consolidated financial statements.

Core Molding Technologies and its subsidiaries operate in the plastics market in a family of products known as reinforced plastics. Reinforced plastics are combinations of resins and reinforcing fibers (typically glass or carbon) that are molded to shape. Core Molding Technologies operates four production facilities in Columbus, Ohio; Batavia, Ohio; Gaffney, South Carolina; and Matamoros, Mexico. The Columbus and Gaffney facilities produce reinforced plastics by compression molding sheet molding compound (SMC) in a closed mold process. The Batavia facility produces reinforced plastic products by a robotic spray-up open mold process and resin transfer molding (RTM) closed mold process utilizing multiple insert tooling (MIT). The Matamoros facility utilizes spray-up and hand lay-up open mold processes, RTM and SMC closed mold process to produce reinforced plastic products.

As disclosed in the Company s Quarterly Report on Form 10-Q for the period ended March 31, 2010, the Company determined that certain of its previously filed financial statements contained an error related to the understatement of a deferred tax asset for certain retiree drug subsidies (RDS) available to sponsors of retiree health benefit plans that provide a benefit that is at least actuarially equivalent to the benefits under Medicare Part D. In order to assess materiality with respect to these errors, the Company considered Staff Accounting Bulletin (SAB) 99, Materiality and SAB 108, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements, and determined that the impact of these errors on prior period consolidated financial statements was immaterial. Accordingly, the Company s consolidated balance sheet as of December 31, 2009 and the related consolidated statements of operations and cash flows for the three and nine months ended September 30, 2009 were revised and reflect the correction of this immaterial error. Correction of this error in the Company s consolidated balance sheet as of December 31, 2009 resulted in an increase in deferred tax assets of approximately $1,035,000, an increase to retained earnings of approximately $618,000 and an increase to accumulated other comprehensive income of approximately $417,000. The consolidated results of operations and other comprehensive loss for the three and nine months ended September 30, 2009 reflect an increase in income tax benefit of approximately $22,000 and $67,000, respectively.

2. Net Income (Loss) per Common Share

Net income (loss) per common share is computed based on the weighted average number of common shares outstanding during the period. Diluted net income per common share is computed similarly but includes the effect of the assumed exercise of dilutive stock options and restricted stock under the treasury stock method.

Table of Contents

The computation of basic and diluted net income (loss) per common share is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net income (loss)	$ 307,418	$ 849,362	$ 611,779	$ (632,942)
Weighted average common shares outstanding	6,850,424	6,794,005	6,822,685	6,768,467
Plus: dilutive options assumed exercised	503,525	85,600	503,525	
Less: shares assumed repurchased with proceeds from exercise	336,490	82,114	366,622	
Plus: dilutive effect of nonvested restricted stock grants	91,518	41,324	111,299	43,048
Weighted average common and potentially issuable common shares outstanding	7,108,977	6,838,815	7,070,887	6,811,515
Basic net income (loss) per common share	$ 0.04	$ 0.13	$ 0.09	$ (0.09)
Diluted net income (loss) per common share	$ 0.04	$ 0.12	$ 0.09	$ (0.09)

23,000 unexercised stock options at September 30, 2010 and 558,825 unexercised stock options at September 30, 2009 were not included in diluted earnings per share, as they were anti-dilutive.

Table of Contents

3. Sales

Core Molding Technologies currently has three major customers, Navistar, Inc. (Navistar), PACCAR, Inc. (PACCAR) and Daimler Trucks North America LLC (Daimler). Major customers are defined as customers whose sales individually consist of more than ten percent of total sales during any reporting period. The following table presents sales revenue for the above-mentioned customers for the three and nine months ended September 30, 2010 and 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Navistar product sales	$ 11,759,537	$ 10,435,844	$ 35,544,577	$ 29,472,716
Navi nowrap align="center" colspan="2">**Party**				
	Operation	**Financial Management**	**Other**	**Statements**
Three months ended June 30, 2006				
Revenues	$ 31,561	$ 4,266	$	$ 35,827
EBITDA, excluding certain items	7,943	1,263	(3,407)	$ 5,799
Depreciation and amortization	(6,046)		(123)	(6,169)
Interest expense, net				(951)
Loss before income taxes, minority interests, and equity in loss of unconsolidated affiliates				$ (1,321)
Additions to long-lived assets	23,991		190	$ 24,181

	Resort Ownership/ Operation	Resort Third-Party Management	Other	Totals per Financial Statements
Six months ended June 30, 2006				
Revenues	$ 65,540	$ 8,123	$	$ 73,663
EBITDA, excluding certain items	16,044	2,138	(6,827)	$ 11,355
Depreciation and amortization	(12,041)		(226)	(12,267)
Interest expense, net				(2,130)
Loss before income taxes, minority interests, and equity in loss of unconsolidated affiliates				$ (3,042)
Additions to long-lived assets	49,443		312	$ 49,755
Total assets	498,973	1,569	119,170	$ 619,712

The Other items in the table above represent corporate-level activities that do not constitute a reportable segment. Total assets at the corporate level primarily consist of cash, our investments in and advances to affiliates, and intangibles. Goodwill is included in our resort ownership/operation segment.

Recent Accounting Pronouncements In July 2006, the FASB issued Financial Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

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

We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of $978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 U.S. Federal income tax return related to transaction costs from our IPO. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of this statement.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this

statement are required to be applied prospectively. We are currently evaluating the impact of the adoption of this statement.

Table of Contents

3. SHARE-BASED COMPENSATION

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

We recognized $777, and $1,406, net of estimated forfeitures, in share-based compensation expense for the three and six months ended June 30, 2007, respectively. The total income tax benefit recognized related to share-based compensation was $283 and $512 for the three and six months ended June 30, 2007, respectively. We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the requisite service period of each award recipient. As of June 30, 2007, total unrecognized compensation cost related to share-based compensation awards was $4,741, which we expect to recognize over a weighted average period of approximately 3.1 years.

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,740 options, stock appreciation rights or shares of our common stock to employees and directors. At June 30, 2007, there were 1,616,420 shares available for future grants under the Plan.

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

Stock Options

We have granted non-qualified stock options to purchase our common stock under the Plan at prices equal to the fair market value of the common stock on the grant dates. The exercise price for certain options granted under the plans may be paid in cash, shares of common stock or a combination of cash and shares. Stock options expire ten years from the grant date and vest ratably over three years.

We recorded stock option expense of $251 and $709 for the three and six months ended June 30, 2007, respectively. There were no stock options granted during the six months ended June 30, 2007 or 2006. We recorded stock option expense of $505 and $987 for the three and six months ended June 30, 2006, respectively.

A summary of stock option activity during the six months ended June 30, 2007, is:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Number of shares under option:			
Outstanding at beginning of period	1,064,500	$17.55	
Granted			
Exercised	(167)	$12.40	
Forfeited	(76,833)	$20.90	
Outstanding at end of period	987,500	$17.29	7.53 years
Exercisable at end of period	648,348	$17.36	7.50 years

The intrinsic value of our outstanding stock options was $16 at June 30, 2007. There is no intrinsic value of our exercisable stock options at June 30, 2007. There was no intrinsic value for our outstanding or exercisable stock options at June 30, 2006.

Market Condition Share Awards

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

We granted 215,592 and 81,820 market condition share awards during the six months ended June 30, 2007 and 2006, respectively. We recorded share based compensation expense of $121 and $282 for the three and six months ended June 30, 2007, respectively. We recorded share based compensation expense of $139 and $224 for the three and six months ended June 30, 2006, respectively.

Of the 2007 market condition shares awards granted:

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

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

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

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

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

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

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

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

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

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

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

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

Of the 2006 market condition shares awards granted:

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

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

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

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

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

Performance Share Awards

Certain officers are eligible to receive shares of our common stock in payment of performance share awards granted to them in accordance with the terms thereof. We granted 23,149 and 27,273 performance shares during the six months ended June 30, 2007 and 2006, respectively. Grantees of performance shares are eligible to receive shares of our common stock based on the achievement of certain individual and departmental performance criteria during the calendar year. The per share fair value of performance shares granted during the six months ended June 30, 2007 and 2006, was $13.10 and $11.03, respectively, which represents the fair value of our common stock on the grant date. We recorded

share based compensation expense of $25 and $51 for the three and six months ended June 30, 2007, respectively. We recorded share based compensation expense of $91 and $146 for the three and six months ended June 30, 2006, respectively.

Based on our achievement of certain individual and departmental performance goals, employees earned and were issued 17,949 performance shares in February 2007. As a result, we recorded a reduction in expense of $103 during the six months ended June 30, 2007 related to the shares not issued. No similar reduction in expense was recorded during the six months ended June 30, 2006.

Deferred Compensation Awards

Pursuant to their employment arrangements, certain executives received bonuses upon completion of the IPO. Executives receiving bonus payments totaling $2,200 elected to defer those payments pursuant to our deferred compensation plan. To satisfy this obligation, we contributed 129,412 shares of our common stock to the trust that holds the assets to pay obligations under our deferred compensation plan. The fair value of that stock at the date of contribution was $2,200. In accordance with the provisions of EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we have recorded the fair value of the shares of common stock, at the date the shares were contributed to the trust, as a reduction of our stockholders equity. Also, as prescribed by EITF Issue No. 97-14, we account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded share based compensation expense of $132 and $37, for the three and six months ended June 30, 2007, respectively. We recorded share based compensation expense of $54 and $220, for the three and six months ended June 30, 2006, respectively.

Non-vested Shares

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

A summary of non-vested shares activity for the six months ended June 30, 2007 is as follows:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Non-vested shares balance at beginning of period	245,000		
Granted	143,711	$13.47	
Forfeited	(5,000)	$10.79	
Vested	(45,000)	$11.61	
Non-vested shares balance at end of period	338,711	$12.35	$ 645

We recorded share based expense of $248 and $430 for the three and six months ended June 30, 2007, respectively. We recorded share based expense of $87 and $95 for the three and six months ended June 30, 2006, respectively.

4. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	June 30, 2007	December 31, 2006
Land and improvements	$ 38,121	$ 38,058
Building and improvements	218,435	178,464
Furniture, fixtures and equipment	254,893	243,991
Construction in process	108,841	71,848
	620,290	532,361
Less accumulated depreciation	(59,530)	(42,393)
Property and equipment, net	$ 560,760	$ 489,968

Depreciation expense was $8,690 and $6,067 for the three months ended June 30, 2007 and 2006, respectively. Depreciation expense was $17,144 and $12,411 for the six months ended June 20, 2007 and 2006, respectively.

5. LONG-TERM DEBT

Long-term debt consists of the following:

	June 30, 2007	December 31, 2006
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	$ 72,174	$ 72,801
Mason mortgage loan	71,648	55,792
Pocono Mountains mortgage loan	97,000	97,000
Grapevine construction loan	9,769	
Junior subordinated debentures	80,545	51,550
Other Debt:		
City of Sheboygan bonds	8,410	8,383
City of Sheboygan loan	3,777	3,863
	343,323	289,389
Less current portion of long-term debt	(1,470)	(1,432)
Total long-term debt	$ 341,853	$ 287,957

Traverse City/Kansas City Mortgage Loan This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants, including a minimum debt service coverage ratio. 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, 2007.

Mason Mortgage Loan This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 265 basis points (total rate of 7.97% as of June 30, 2007). The loan matures in December 2008 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has

customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. This loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at June 30, 2007.

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of $71,000. The agreement expires in December 2008. The agreement effectively fixes the interest rate on $71,000 of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which are expected to fully perform under the terms of the agreement.

Pocono Mountains Mortgage Loan In December 2006 we closed on a $97,000 first mortgage loan secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures December 1, 2016. The loan is interest only for the initial 18-month period and thereafter is 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, 2007.

Grapevine Construction Loan In July 2006 we closed on a $79,500 loan to construct the Great Wolf Lodge in Grapevine, Texas. The loan is secured by a first mortgage on the Grapevine, Texas property. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (total rate of 7.92% as of June 30, 2007). The loan matures in July 2009 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at June 30, 2007.

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

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

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

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

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

Table of Contents

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

City of Sheboygan Bonds The City of Sheboygan (the City) bonds represent the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In accordance with the provisions of EITF Issue No. 91-10, we have recognized as a liability the obligations for the BANs. The notes bear interest at an annual rate of 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of BANs or other funds appropriated by the City for the payment of interest on the BANs and (b) the proceeds to be delivered from the issuance and sale of securities by the City. We have an obligation to fund payment of these BANs. Our obligation to fund repayment of the notes will be satisfied by certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028.

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

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

	Through June 30,
2008	$ 1,470
2009	3,178
2010	5,059
2011	74,107
2012	10,819
Thereafter	248,690
Total	$ 343,323

6. COMPREHENSIVE INCOME

SFAS 130, Reporting Comprehensive Income, requires the disclosure of the components included in comprehensive income. For the three and six months ended June 30, 2007, we recorded comprehensive income, net of tax of approximately $159 related to unrealized gain on our interest rate swap. We had no similar amount for the three and six months ended June 30, 2006.

7. EARNINGS PER SHARE

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

Table of Contents

The trust that holds the assets to pay obligations under our deferred compensation plan has 129,412 shares of our common stock. In accordance with the provisions of EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we treat those shares of common stock as treasury stock for purposes of our earnings per share computations and therefore we exclude them from our basic and diluted earnings per share calculations. Basic and diluted earnings per common share are as follows:

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
Net loss attributable to common shares	$ (1,656)	$ (1,402)	$ (3,661)	$ (2,345)
Weighted average common shares outstanding basic	30,566,218	30,299,896	30,496,174	30,223,896
Weighted average common shares outstanding diluted	30,566,218	30,299,896	30,496,174	30,223,896
Net loss per share basic	$ (0.05)	$ (0.05)	$ (0.12)	$ (0.08)
Net loss per share diluted	$ (0.05)	$ (0.05)	$ (0.12)	$ (0.08)

Options to purchase 972,500 shares of common stock were not included in the computations of diluted earnings per share for the three and six months ended June 30, 2007, because the exercise prices for the options were greater than the average market price of the common shares during that period. There were 238,739 shares of common stock that were not included in the computation of diluted earnings per share for the three and six months ended June 30, 2007, because the market and/or performance criteria related to these shares had not been met at June 30, 2007.

ITEM 2. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

The following discussion should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. We make statements in this section that are forward-looking statements within the meaning of the federal securities laws. For a complete discussion of forward-looking statements, see the section in Item 1 of our Annual Report on Form 10-K entitled, Forward-Looking Statements. All dollar amounts in this discussion, except for per share data and operating statistics, are in thousands.

Overview

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

Business. We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to 400 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge and Blue Harbor Resort brand names. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

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

The following table presents an overview of our portfolio of operating resorts and resorts under construction. As of June 30, 2007, we operate eight Great Wolf Lodge resorts (our signature northwoods-themed resorts) and one Blue Harbor Resort (a nautical-themed property).

18

	Ownership Percentage	Opening	Guest Suites	Condo Units	Indoor Entertainment Area (1) (Approx. ft2)
Existing Resorts:					
Wisconsin Dells, WI (2)	30%	1997	308	77	102,000
Sandusky, OH (2)	30%	2001	271		41,000
Traverse City, MI (3)	100%	2003	281		51,000
Kansas City, KS	100%	2003	281		49,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		78,000
Pocono Mountains, PA	100%	2005	401		91,000
Niagara Falls, ONT (4)		2006	406		94,000
Mason, OH (5)	100%	2006	401		93,000
Resorts Announced or Under Construction:					
Grapevine, TX (6)	100%	Late 2007	402		98,000
Grand Mound, WA (7)	49%	Early 2008	398		78,000
Charlotte (metropolitan area), NC (8)	100%	Early 2009	400		95,000

(1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children s activity room and fitness room, as well as our Aveda spa in the resorts that have such amenities.

(2) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.68% interest in the joint venture, and we have a 30.32% interest. We operate the properties and

license the Great Wolf Lodge brand to the joint venture under long-term agreements, subject to earlier termination in certain situations.

(3) Construction for the expansion of a 9,000 square foot conference center space began in May 2007. We expect to complete the expansion in late 2007.

(4) 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. We manage the resort on behalf of Ripley and also provide central reservation services.

(5) We initially entered into a joint venture agreement with a subsidiary of CBS Corporation (CBS) to build this resort and attached conference center. In June 2007 we purchased CBS equity interest in this joint venture, and we now own 100% of the resort.

(6) We are developing a Great Wolf Lodge

resort in Grapevine, Texas. The northwoods-themed, eight-story resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort began in June 2006 with expected completion in late 2007.

(7) We have entered into a joint venture agreement with The Confederated Tribes of the Chehalis Reservation (Chehalis) to build this resort. We will operate the resort under our Great Wolf Lodge brand. Chehalis will lease the land needed for the resort to the joint venture, and they will have a majority equity interest in the joint venture. Construction on the resort began in October 2006 with expected completion in early 2008.

(8) We have announced plans to develop a Great Wolf Lodge resort in the Charlotte, North Carolina metropolitan area. The northwoods-themed, approximately 400-suite resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort is expected to begin in late 2007 with expected completion in early 2009.

Industry Trends. We operate in the family entertainment resort segment of the travel and leisure industry. The concept of a family entertainment resort with an indoor waterpark was first introduced to the United States in Wisconsin Dells, Wisconsin and has evolved there over the past 17 years. In an effort to boost occupancy and daily rates, as well as capture off-season demand, hotel operators in the Wisconsin Dells market began expanding indoor pools and adding waterslides and other water-based attractions to existing hotels and resorts. The success of these efforts prompted several local operators to build new, larger destination resorts based primarily on the concept.

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

While no standard industry definition for a family entertainment resort featuring an indoor waterpark has developed, we generally consider resorts with at least 200 rooms featuring indoor waterparks larger than 25,000 square feet, as well as a variety of water slides and other water-based attractions, to be competitive with our resorts. A recent Hotel & Leisure Advisors, LLC survey indicates that the number of indoor waterpark destination resorts that meet this definition has grown from 29 available properties as of year-end 2005 to 41 available properties as of year-end 2006.

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

Outlook. We believe that no other operator or developer other than Great Wolf Resorts has established a portfolio of family entertainment resorts featuring indoor waterparks. We intend to continue to expand our portfolio of owned resorts throughout the United States and to selectively seek licensing and management opportunities domestically and

internationally. The resorts we are currently constructing and plan to develop in the future require significant industry knowledge and substantial capital resources. Similar family entertainment resorts compete directly with several of our resorts.

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

In attempting to execute our internal and external growth strategies, we are subject to a variety of business challenges and risks. These challenges include: development and licensing of properties; increases in costs of constructing, operating and maintaining our resorts; competition from other entertainment companies, both within and outside our industry segment; and external economic risks, including family vacation patterns and trends. We seek to meet these

challenges by providing sufficient management oversight to site selection, development and resort operations, concentrating on growing and strengthening awareness of our brand and demand for our resorts, and maintaining our focus on safety.

We believe that our Traverse City and Sandusky resorts have been and will continue to be affected by adverse general economic circumstances in the Michigan/Northern Ohio region (such as bankruptcies of several major companies and/or large announced layoffs by major employers) and increased competition that has occurred in these markets over the past two years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts largest suppliers of customers. We believe the adverse general economic circumstances in the region have negatively impacted overall discretionary consumer spending in that region over the past year and may continue to do so going forward. We believe this has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts. Also, we have experienced a much slower-than-expected occupancy ramp-up and lower-than-expected average daily room rates at our Sheboygan, Wisconsin property since its opening in 2004. We believe this operating weakness has been primarily attributable to the fact that the overall development of Sheboygan as a tourist destination continues to lag behind our initial expectations. We believe this has impacted and will likely continue to impact the consumer demand for our indoor waterpark resort in that market and the operations of the resort.

Revenue and Key Performance Indicators. We seek to generate positive cash flows and net income from each of our owned resorts. Our rooms revenue represents sales to guests of room nights at our resorts and is the largest contributor to our cash flows and profitability. Rooms revenue accounted for approximately 67% of our total resort revenue for the six months ended June 30, 2007. We employ sales and marketing efforts to increase overall demand for rooms at our resorts. We seek to optimize the relationship between room rates and occupancies through the use of yield management techniques that attempt to project demand in order to selectively increase room rates during peak demand. These techniques are designed to assist us in managing our higher occupancy nights to achieve maximum rooms revenue and include such practices as:

- Monitoring our historical trends for occupancy and estimating our high occupancy nights;
- Offering the highest discounts to previous guests in off-peak periods to build customer loyalty and enhance our ability to charge higher rates in peak periods;
- Structuring rates to allow us to offer our previous guests the best rate while simultaneously working with a promotional partner or offering internet specials;
- Monitoring sales of room types daily to evaluate the effectiveness of offered discounts; and
- Offering specials on standard suites and yielding better rates on larger suites when standard suites sell out.

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

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

- Occupancy;
- Average daily room rate, or ADR;
- Revenue per available room, or RevPAR;
- Total revenue per available room, or Total RevPAR;

Table of Contents

Total revenue per occupied room, or Total RevPOR; and

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

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

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

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

RevPAR is the product of occupancy and ADR.

Total RevPAR and Total RevPOR are defined as follows:

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

Total Rev POR is calculated by dividing total revenue by total occupied rooms.

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. While ADR and RevPAR only include rooms revenue, Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the six months ended June 30, 2007, approximately 33% of our total resort revenues consisted of non-rooms revenue.

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

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

Recent Accounting Pronouncements

In July 2006, the FASB issued Financial Interpretation No. (FIN) 48, Accounting for Uncertainty in Income Taxes , which clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with FASB Statement No. 109, Accounting for Income Taxes. The interpretation prescribes a recognition threshold and measurement attribute criteria for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Table of Contents

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

We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of $978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 U.S. Federal income tax return related to transaction costs from our IPO. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year.

In September 2006, the FASB issued Statement of Financial Accounting Standards (SFAS) 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the adoption of this statement.

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. We are currently evaluating the impact of the adoption of this statement.

Non-GAAP Financial Measures

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

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

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

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

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

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

Table of Contents

Our management uses EBITDA:

- as a measurement of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of items directly resulting from our asset base, primarily depreciation and amortization, from our operating results;
- for planning purposes, including the preparation of our annual operating budget;
- as a valuation measure for evaluating our operating performance and our capacity to incur and service debt, fund capital expenditures and expand our business; and
- as one measure in determining the value of other acquisitions and dispositions.

Using a measure such as EBITDA has material limitations. These limitations include the difficulty associated with comparing results among companies and the inability to analyze certain significant items, including depreciation and interest expense, which directly affect our net income or loss. Management compensates for these limitations by considering the economic effect of the excluded expense items independently, as well as in connection with its analysis of net income.

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

	Three months ended June 30,		**Six months ended June 30,**	
	2007	**2006**	**2007**	**2006**
Net loss	$ (1,656)	$ (1,402)	$ (3,661)	$ (2,345)
Adjustments:				
Interest expense, net	2,923	951	5,461	2,130
Income tax benefit	(1,180)	(906)	(2,091)	(1,511)
Depreciation and amortization	8,818	6,169	17,462	12,267
EBITDA	$ 8,905	$ 4,812	$ 17,171	$ 10,541

Results of Operations

General

Our results of operations for the three and six months ended June 30, 2007 and 2006 are not directly comparable primarily due to the opening of our Great Wolf Lodge in Mason, Ohio in December 2006.

Our financial information includes:

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

Revenues. Our revenues consist of:

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

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

other revenue from managed properties. We employ the staff at our managed properties (except for the Niagara Falls resort). Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the operations of the managed properties. Emerging Issues Task Force, or EITF, Issue No. 01-14, Income Statement Characteristics of Reimbursements for Out-of-Pocket Expenses (EITF 01-14), establishes standards for accounting for reimbursable expenses in our statements of operations. Under this pronouncement, the reimbursement of payroll, benefits and costs is recorded as revenue on our statements of operations, with a corresponding expense recorded as other expenses from managed properties.

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

Our other operating expenses include the following items:

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

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

depreciation and amortization; and

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

Three months ended June 30, 2007, compared with the three months ended June 30, 2006

The following table shows key operating statistics for our resorts for the three months ended June 30, 2007 and 2006:

	All Properties (a)	Same Store Comparison (b)			
	Three months ended June 30, 2007	Three months ended June 30, 2007	Three months ended June 30, 2006	Increase (Decrease) $	Increase (Decrease) %
Occupancy	61.2%	63.3%	62.9%	N/A	0.6%
ADR	$ 237.57	$236.60	$ 231.80	$4.80	2.1%
RevPAR	$ 145.28	$149.73	$ 145.69	$4.04	2.8%
Total RevPOR	$ 358.72	$356.61	$ 347.60	$9.01	2.6%
Total RevPAR	$ 219.37	$225.68	$ 218.47	$7.21	3.3%

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

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

In December 2006 we opened our resort in Mason, Ohio. As a result, total revenue, rooms revenue and other revenue for the three month periods ended June 30, 2007 and 2006 are not directly comparable.

Presented below are selected amounts from the statements of operations for the three months ended June 30, 2007 and 2006:

	Three months ended June 30,		
	2007	2006	Increase (Decrease)
Revenues	$46,347	$35,827	$10,520
Operating expenses:			
Departmental operating expenses	16,169	11,374	4,795
Selling, general and administrative	11,458	10,952	506
Property operating costs	6,289	4,699	1,590
Depreciation and amortization	8,818	6,169	2,649
Net operating income (loss)	811	(370)	1,181
Net interest expense	2,923	951	1,972
Income tax benefit	(917)	(511)	(406)
Net loss	(1,656)	(1,402)	(254)

Revenues. Total revenues increased primarily due to the opening of our Mason resort in December 2006, our construction of 104 additional guest suites at our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts. Revenues increased at these resorts by $10,970 for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006.

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

Departmental expenses increased by $4,935 for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006, due to the opening of our Mason resort, the expansion of our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts.

Total selling, general and administrative expenses increased by $506 for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006. Selling, general and administrative expenses increased by $2,672 due to the opening of our Mason resort, the expansion of our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts, while corporate selling, general and administrative expenses decreased by $2,142 due to decreased legal costs; more capitalizable labor, due to increased development activity; and higher level of start-up costs (which are included in property operating costs) for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006.

Total property operating costs (exclusive of opening costs) increased $1,507 for the three months ended June 30, 2007, as compared to the three months ended June 30, 2006, due to the opening of our Mason resort, as well as increased repairs and maintenance expense and increased utilities expense related to the expansion of our Williamsburg resort and amenity additions to several of our other resorts. Opening costs related to our resorts were $1,097 for the three months ended June 30, 2007, as compared to $1,014 for the three months ended June 30, 2006.

Total depreciation and amortization increased mainly due to the opening of our Mason resort and the expansion at our Williamsburg resort. The total increase in depreciation and amortization at these two resorts was $2,247 during the three months ended June 30, 2007 as compared to three months ended June 30, 2006.

Table of Contents

Net operating income. During the three months ended June 30, 2007, we had net operating income of $811 as compared to a net operating loss of ($370) for the three months ended June 30, 2006.

Net loss. Net loss increased due to the following:

An increase in net interest expense of $1,972 mainly due to mortgage debt related our Pocono Mountains and Mason resorts.

This increase was partially offset by:

An increase in operating income from $(370) for the three months ended June 30, 2006, to $811 for the three months ended June 30, 2007; and

An increase of $406 in income tax benefit recorded in the three months ended June 30, 2007, as compared to the three months ended June 30, 2006.

Six months ended June 30, 2007, compared with the six months ended June 30, 2006

The following table shows key operating statistics for our resorts for the six months ended June 30, 2007 and 2006:

	All Properties (a)	Same Store Comparison (b)			
	Six months ended	Six months ended June 30,	Six months ended	Increase (Decrease)	
	June 30, 2007	2007	June 30, 2006	$	%
Occupancy	62.7%	64.5%	64.7%	N/A	(0.3)%
ADR	$ 242.88	$241.63	$ 234.77	$ 6.86	2.9%
RevPAR	$ 152.18	$155.79	$ 151.78	$ 4.01	2.6%
Total RevPOR	$ 368.71	$364.61	$ 353.94	$10.67	3.0%
Total RevPAR	$ 231.02	$235.09	$ 228.83	$ 6.26	2.7%

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

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

and Poconos
resorts).

In December 2006 we opened our resort in Mason, Ohio. As a result, total revenue, rooms revenue and other revenue for the six month periods ended June 30, 2007 and 2006 are not directly comparable.

Presented below are selected amounts from the statements of operations for the six months ended June 30, 2007 and 2006:

	Six months ended June 30,		
	2007	**2006**	**Increase (Decrease)**
Revenues	$94,807	$73,663	$21,144
Operating expenses:			
Departmental operating expenses	32,690	23,567	9,123
Selling, general and administrative	24,579	22,603	1,976
Property operating costs	14,172	9,575	4,597
Depreciation and amortization	17,462	12,267	5,195
Loss on sale of property		578	(578)
Net operating income (loss)	66	(912)	978
Net interest expense	5,461	2,130	3,331
Income tax benefit	(1,961)	(1,185)	(776)
Net loss	(3,661)	(2,345)	(1,316)

Revenues. Total revenues increased primarily due to the opening of our Mason resort in December 2006, our construction of 104 additional guest suites at our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts. Revenues increased at these resorts by $21,615 for the six months ended June 30, 2007, as compared to the six months ended June 30, 2006.

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

Departmental expenses increased by $9,473 for the six months ended June 30, 2007, as compared to the six months ended June 20, 2006, due to the opening of our Mason resort, the expansion of our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts.

Total selling, general and administrative expenses increased by $1,976 for the six months ended June 30, 2007, as compared to the six months ended June 30, 2006. Selling, general and administrative expenses increased by $5,006 due to the opening of our Mason resort, the expansion of our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts, while corporate selling, general and administrative expenses decreased by $1,831 due to decreased legal costs; more capitalizable labor, due to increased development activity; and higher level of start-up costs (which are included in property operating costs) for the six months ended June 30, 2007, as compared to the six months ended June 30, 2006

Total property operating costs (exclusive of opening costs) increased $2,914 for the six months ended June 30, 2007, as compared to June 20, 2006, mainly due to the opening of our Mason resort, as well as increased repairs and maintenance expense, and increased utilities expense related to the expansion of our Williamsburg resort and amenity additions to several of our other resorts. Opening costs related to our resorts were $3,423 for the six months ended June 30, 2007, as compared to $1,740 for the six months ended June 30, 2006.

Total depreciation and amortization increased mainly due to the opening of our Mason resort and the expansion at our Williamsburg resort. The total increase in depreciation and amortization at these two resorts was $4,488 during the six months ended June 30, 2007, as compared to six months ended June 30, 2006.

Net operating income. During the six months ended June 30, 2007, we had net operating income of $66 as compared to a net operating loss of ($912) for the six months ended June 30, 2006.

Net loss. Net loss increased due to the following:

An increase in net interest expense of $3,331 mainly due to mortgage debt related to our Pocono Mountains and Mason resorts.

This increase was partially offset by:

An increase in operating income from $(912) for the six months ended June 30, 2006, to $66 for the six months ended June 30, 2007.

An increase of $776 in income tax benefit recorded in the six months ended June 30, 2007, as compared to the six months ended June 30, 2006.

Table of Contents

Segments

We are organized into a single operating division. Within that operating division, we have two reportable segments in 2007 and 2006:

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

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

We evaluate the performance of each segment based on earnings before interest, income taxes, and depreciation and amortization (EBITDA), excluding minority interests and equity in earnings of unconsolidated affiliates. See our Segments section in our Summary of Significant Accounting Policies for a reconciliation of these measures to their most directly comparable GAAP measure.

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Increase (Decrease)	2007	2006	Increase (Decrease)
Resort Ownership/Operation						
Revenues	$41,887	$31,561	$10,326	$85,533	$65,540	$19,993
EBITDA, excluding certain items	9,085	7,943	1,142	17,507	16,044	1,463
Resort Third-Party Mgmt						
Revenues	4,460	4,266	194	9,274	8,123	1,151
EBITDA, excluding certain items	1,658	1,263	395	3,436	2,138	1,298
Other						
Revenues						
EBITDA, excluding certain items	(1,114)	(3,407)	2,293	(3,415)	(6,827)	3,412

The Other items in the table above represent corporate-level activities that do not constitute a reportable segment.

Liquidity and Capital Resources

We had total indebtedness of $343,323 and $289,389 as of June 30, 2007, and December 31, 2006, respectively, summarized as follows:

	June 30, 2007	December 31, 2006
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	$ 72,174	$ 72,801
Mason mortgage loan	71,648	55,792
Pocono Mountains mortgage loan	97,000	97,000
Grapevine construction loan	9,769	
Junior subordinated debentures	80,545	51,550
Other Debt:		
City of Sheboygan bonds	8,410	8,383
City of Sheboygan loan	3,777	3,863
	343,323	289,389

Less current portion of long-term debt	(1,470)	(1,432)
Total long-term debt	$ 341,853	$ 287,957

29

Traverse City/Kansas City Mortgage Loan This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants, including a minimum debt service coverage ratio. 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, 2007.

Mason Mortgage Loan This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 265 basis points (total rate of 7.97% as of June 30, 2007). The loan matures in December 2008 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. This loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at June 30, 2007.

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of $71,000. The agreement expires in December 2008. The agreement effectively fixes the interest rate on $71,000 of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which are expected to fully perform under the terms of the agreement.

Pocono Mountains Mortgage Loan In December 2006 we closed on a $97,000 first mortgage loan secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures December 1, 2016. The loan is interest only for the initial 18-month period and thereafter is 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, 2007.

Grapevine Construction Loan In July 2006 we closed on a $79,500 loan to construct the Great Wolf Lodge in Grapevine, Texas. The loan is secured by a first mortgage on the Grapevine, Texas property. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (total rate of 7.92% as of June 30, 2007). The loan matures in July 2009 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at June 30, 2007.

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

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

proceeds from our debenture sale, net of the costs of the TPS offering and our investment in Trust I, were $48,400. We used the net proceeds to retire a construction loan.

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

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

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

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

City of Sheboygan Bonds The City of Sheboygan (the City) bonds represent the face amount of bond anticipation notes (BANs) issued by the City in November 2003 in conjunction with the construction of the Blue Harbor Resort in Sheboygan, Wisconsin. In accordance with the provisions of EITF Issue No. 91-10, we have recognized as a liability the obligations for the BANs. The notes bear interest at an annual rate of 3.95% and mature in 2008. The notes are not a general obligation of the City and are payable from (a) the proceeds of BANs or other funds appropriated by the City for the payment of interest on the BANs and (b) the proceeds to be delivered from the issuance and sale of securities by the City. We have an obligation to fund payment of these BANs. Our obligation to fund repayment of the notes will be satisfied by certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028.

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

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

	Through June 30,
2008	$ 1,470
2009	3,178
2010	5,059
2011	74,107
2012	10,819
Thereafter	248,690
Total	$ 343,323

Short-Term Liquidity Requirements

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

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

Historically, we have satisfied our short-term liquidity requirements through operating cash flows and cash on hand. We believe that cash provided by our operations, together with cash on hand, will be sufficient to fund our short-term liquidity requirements for working capital, capital expenditures and debt service for the next 12 months.

Long-Term Liquidity Requirements

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

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

We expect to meet these needs through existing working capital, cash provided by operations and a combination of mortgage financing on properties being developed, proceeds from investing activities, additional borrowings under future credit facilities, and the issuance of equity instruments, including common stock, or additional or replacement debt, if market conditions permit. We believe these sources of capital will be sufficient to provide for our long-term capital needs.

Our largest long-term expenditures are expected to be for capital expenditures for development of future resorts and capital contributions to joint ventures owning resorts under construction or development. Such expenditures were $121,519 for the six months ended June 30, 2007. We expect to have approximately $90,100 of such expenditures in the remainder of 2007 and $82,000 in 2008. As discussed above, we expect to meet these requirements through a combination of cash provided by operations, cash on hand, proceeds from investing activities and new and/or existing mortgage financing on properties being developed.

Table of Contents

Off Balance Sheet Arrangements

We have two unconsolidated joint venture arrangements at June 30, 2007. We account for our unconsolidated joint ventures using the equity method of accounting.

Our joint venture with CNL Income Properties, Inc. (CNL) owns two resorts, Great Wolf Lodge-Wisconsin Dells, Wisconsin and Great Wolf Lodge-Sandusky, Ohio. We are a limited partner in the CNL joint venture with a 30.32% ownership interest. At June 30, 2007, the joint venture had aggregate outstanding indebtedness to third parties of approximately $63,000. This loan is a mortgage loan that is non-recourse to us.

We entered into our joint venture with The Confederated Tribes of the Chehalis Reservation to develop a Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This resort is currently under construction and is expected to open in early 2008. This joint venture is a limited liability company; we are a member of that limited liability company with a 49% ownership interest.

As capital may be required to fund the activities of these resorts, we may be required to fund in the future the joint ventures shares of the costs not funded by the majority owner of the joint venture, the joint ventures operations or outside financing. Additionally, we expect to provide a partial or full guarantee on mortgage debt to be obtained by the Grand Mound joint venture. Based on the nature of the activities conducted in these joint ventures, management cannot estimate with any degree of accuracy amounts that we may be required to fund in the long term. Management does not currently believe that any additional future funding of these joint ventures will have an adverse effect on our financial condition, however, as we do not expect to make significant future capital contributions to these joint ventures.

Contractual Obligations

The following table summarizes our contractual obligations as of June 30, 2007:

		Payment Terms			
	Total	**Less Than 1 Year**	**1-3 Years**	**3-5 Years**	**More Than 5 Years**
Debt obligations (1)	$ 343,323	$ 1,470	$ 8,237	$ 84,926	$ 248,690
Operating lease obligations	950	403	547		
Construction contracts	40,836	40,836			
Reserve on unrecognized tax benefits	955			955	
Total	$ 386,064	$ 42,709	$ 8,784	$ 85,881	$ 248,690

(1) Includes $8,410 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and $3,777 of fixed rate debt recognized as a liability related to a loan from

the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by our Sheboygan resort.

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

Working Capital

We had $26,479 of available cash and cash equivalents and working capital deficit of $2,449 (current assets less current liabilities) at June 30, 2007, compared to the $96,778 of available cash and cash equivalents and $55,365 of working capital at December 31, 2006. The primary reason for the decline in our working capital balance from December 31, 2006 to June 30, 2007 was the use of cash for capital expenditures and investments in and advances to affiliates, for our properties under development.

Table of Contents

Cash Flows

Six months ended June 30, 2007, compared with the six months ended June 30, 2006

	2007	2006	Increase (Decrease)
Net cash provided by operating activities	$ 8,075	$ 7,589	$ 486
Net cash used in investing activities	(131,408)	(29,635)	101,773
Net cash provided by financing activities	53,034	24,464	28,570

Operating Activities. The increase in net cash provided by operating activities resulted primarily due to having net operating income of $66 during the six months ended June 30, 2007, as compared to a net operating loss of ($912) during the six months ended June 30, 2006.

Investing Activities. The increase in net cash used in investing activities for the six months ended June 30, 2007, as compared to the six months ended June 30, 2006, resulted primarily from increased capital expenditures for our properties that are in service and our development properties.

Financing Activities. The increase in net cash provided by financing activities resulted primarily from the proceeds from our TPS transaction during the six months ended June 30, 2007.

Inflation

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

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

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

In April 2007, we entered into an interest rate swap agreement with two financial institutions on a notional amount of $71,000. The agreement expires in December 2008. The agreement effectively fixes the interest rate on $71,000 of floating rate debt outstanding at a rate of 7.65% per annum, thus reducing our exposure to interest rate fluctuations. The notional amount does not represent amounts exchanged by the parties, and thus is not a measure of exposure to us. The differences to be paid or received by us under the interest rate swap agreement are recognized as an adjustment to interest expense. The agreement is with major financial institutions, which are expected to fully perform under the terms of the agreement.

As of June 30, 2007, we had total indebtedness of approximately $343,323. This debt consisted of:

$72,174 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

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

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

$97,000 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%

$71,648 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 265 basis points. The total rate was 7.97% at June 30, 2007. $71,000 of this debt is effectively fixed at a rate of 7.65% due to the interest rate swap described above.

$9,769 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points. The total rate was 7.92% at June 30, 2007.

$8,410 of fixed rate debt (effective interest rate of 10.67%) recognized as a liability related to certain bonds issued by the City of Sheboygan and $3,777 of noninterest bearing debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by the Sheboygan resort; and

As of June 30, 2007, we estimate the total fair value of the indebtedness described above to be $24,442 more than their total carrying values, due to the terms of the existing debt being different than those terms we believe would currently be available to us for indebtedness with similar risks and remaining maturities.

If the prime rate and/or LIBOR were to increase by 1% or 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately $104 annually. If the prime rate were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately $104 annually.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

We carried out an evaluation, under the supervision and with the participation of our management including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the second quarter of 2007. We have concluded that our disclosure controls and procedures were effective as of June 30, 2007.

Changes In Internal Control

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

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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

At the annual meeting of stockholders on May 30, 2007, the following individuals were elected to serve as members of our Board of Directors for a one-year term that will expire at our annual meeting in 2008 or when their successors are duly qualified, each individual receiving the indicated number of votes for his or her election, and the indicated number of votes withheld:

	FOR	WITHHELD
Joseph Vittoria	24,776,670	1,033,480
John Emery	25,587,781	222,369
Elan Blutinger	24,778,870	1,031,280
Randy Churchey	23,524,932	2,285,218
Michael M. Knetter	24,711,770	1,098,380
Alissa N. Nolan	24,357,470	1,452,680
Edward Rensi	24,665,422	1,144,728
Howard Silver	24,366,927	1,443,223

As previously disclosed, on July 9, 2007, Alissa N. Nolan, resigned from the Board of Directors and all committees of which she was a member in connection with her simultaneous appointment as Executive Vice President and Managing Director of International for the Company.

Table of Contents

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

The exhibits listed below are incorporated herein by reference to prior SEC filings by the Registrant or are included as exhibits in this Form 10-Q.

Exhibit Number	Description
2.1	Form of Merger Agreement (Delaware) (incorporated herein by reference to Exhibit 2.1 to the Company s Registration Statement on Form S-1 filed August 12, 2004)
2.2	Form of Merger Agreement (Wisconsin) (incorporated herein by reference to Exhibit 2.2 to the Company s Registration Statement on Form S-1 filed August 12, 2004)
3.1	Form of Amended and Restated Certificate of Incorporation for Great Wolf Resorts, Inc. dated December 9, 2004 (incorporated herein by reference to Exhibit 3.1 to the Company s Registration Statement on Form S-1 filed August 12, 2004)
3.2	Form of Amended and Restated Bylaws of Great Wolf Resorts, Inc. effective September 12, 2006 (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed September 18, 2006)
4.1	Form of the Common Stock Certificate of Great Wolf Resorts, Inc. (incorporated herein by reference to Exhibit 4.1 to the Company s Registration Statement on Form S-1 filed October 21, 2004)
4.2	Junior Subordinated Indenture, dated as of March 15, 2005, between Great Wolf Resorts, Inc. and JP Morgan Chase Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed March 18, 2005)
4.3	Amended and Restated Trust Agreement, dated as of March 15, 2005, by and among Chase Manhattan Bank USA, National Association, as Delaware trustee; JP Morgan Chase Bank, National Association, as property trustee; Great Wolf Resorts, Inc., as depositor; and James A. Calder, Alex P. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed March 18, 2005)
4.4	Junior Subordinated Indenture, dated as of June 15, 2007, between Great Wolf Resorts, Inc. and Wells Fargo Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to the Company s Current Report on Form 8-K filed June 19, 2007)
4.5	Amended and Restated Trust Agreement, dated as of June 15, 2007, by and among Great Wolf Resorts, Inc., as depositor, Wells Fargo Bank, N.A., as property trustee, Wells Fargo Delaware Trust Company, as Delaware trustee, and James A. Calder, Alex P. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company s Current Report on Form 8-K filed June 19, 2007)

Exhibit Number	Description
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a 14(a) and Rule 15d 14(a)
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a 14(a) and Rule 15d 14(a)
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

* Filed herewith.

Table of Contents

SIGNATURE

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

GREAT WOLF RESORTS, INC.

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

Dated: August 7, 2007

39