

Great Wolf Resorts, Inc.  
Form 10-Q  
August 14, 2013  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-35458

**GREAT WOLF RESORTS, INC.**

(Exact name of registrant as specified in its charter)

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**51-0510250**  
(I.R.S. Employer  
Identification No.)

**525 Junction Road, Suite 6000 South**

**Madison, Wisconsin 53717**  
(Address of principal executive offices)

**53717**  
(Zip Code)

**(608) 662-4700**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

The number of shares outstanding of the issuer's common stock was 200 as of August 14, 2013.

**Table of Contents**

**Great Wolf Resorts, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the Quarter Ended June 30, 2013**

**INDEX**

	<b>Page No.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1. <u>Financial Statements (unaudited)</u>	4
<u>Condensed Consolidated Balance Sheets as of June 30, 2013 and December 31, 2012</u>	4
<u>Condensed Consolidated Statements of Income for the three months ended June 30, 2013, period May 5, 2012 through June 30, 2012, period April 1, 2012 through May 4, 2012, six months ended June 30, 2013, period May 5, 2012 through June 30, 2012 and period January 1, 2012 through May 4, 2012</u>	5
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2013, period May 5, 2012 through June 30, 2012, and period January 1, 2012 through May 4, 2012</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	8
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	29
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	37
Item 4. <u>Controls and Procedures</u>	37
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1. <u>Legal Proceedings</u>	37
Item 1A. <u>Risk Factors</u>	37
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	37
Item 3. <u>Defaults Upon Senior Securities</u>	38
Item 4. <u>Mine Safety Disclosures</u>	38
Item 5. <u>Other Information</u>	38
Item 6. <u>Exhibits</u>	38
<u>Signatures</u>	39

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

Some of the statements contained in this report, and in other information we file with the Securities and Exchange Commission, or the SEC, are or may be deemed to be forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Securities Exchange Act of 1934, as amended, and are subject to the safe harbor created by the Private Securities Litigation Act of 1995. All statements, other than statements of historical facts, including, among others, statements regarding our future financial results or position, business strategy, projected levels of growth, projected costs and projected performance and financing needs, are forward-looking statements. Those statements include statements regarding the intent, belief or current expectations of Great Wolf Resorts, Inc. and members of our management team, as well as the assumptions on which such statements are based, and generally are identified by the use of words such as may, might, will, could, plan, objective, predict, project, potential, continue, ongoing, seeks, anticipates, believes, estimates, expects, plans, intends, expressions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that actual results may differ materially from those contemplated by such forward-looking statements. Many of these factors are beyond our ability to control or predict. Such factors include, but are not limited to:

competition in our markets;

changes in family vacation patterns and consumer spending habits;

regional or national economic downturns;

our ability to attract a significant number of guests from our target markets;

economic conditions in our target markets;

the impact of fuel costs and other operating costs;

our ability to develop new resorts in desirable markets or further develop and improve existing resorts on a timely and cost efficient basis;

our ability to manage growth, including the expansion of our infrastructure and systems necessary to support growth;

our ability to manage cash and obtain additional cash required for growth;

the general tightening in the U.S. lending markets;

potential accidents or injuries at our resorts;

decreases in travel due to pandemic or other widespread illness;

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

our ability to achieve or sustain profitability;

downturns in our industry segment;

extreme weather conditions;

reductions in the availability of credit to indoor waterpark resorts generally or to us and our subsidiaries;

uninsured losses or losses in excess of our insurance coverage;

our ability to protect our intellectual property, trade secrets and the value of our brands; and

current and possible future legal restrictions and requirements.

Further descriptions of these risks, uncertainties, and other matters can be found in our annual report and other reports filed from time to time with the SEC, including but not limited to our Annual Report on Form 10-K for the year ended December 31, 2012. We caution that the foregoing list of important factors is not complete, and we assume no obligation to update any forward-looking statement that we may make.

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

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****GREAT WOLF RESORTS, INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited; dollars in thousands, except share and per share data)**

	June 30, 2013	December 31, 2012 (as revised)
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 26,926	\$ 28,124
Restricted cash	6,119	4,159
Escrows	5,093	7,022
Accounts receivable, net of allowance for doubtful accounts of \$11 and \$0	5,865	7,620
Accounts receivable affiliates	5,157	5,145
Inventory	7,556	7,203
Other current assets	4,826	4,284
<b>Total current assets</b>	<b>61,542</b>	<b>63,557</b>
Property and equipment, net of accumulated depreciation of \$52,674 and \$30,737	604,835	615,055
Investments in and advances to unconsolidated affiliates	33,236	25,697
Other assets	7,261	5,406
Goodwill	124,435	124,435
Intangible assets, net of accumulated amortization of \$797 and \$456	47,229	47,444
<b>Total assets</b>	<b>\$ 878,538</b>	<b>\$ 881,594</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 65,881	\$ 66,768
Accounts payable	7,681	7,459
Accounts payable affiliates	2,402	1,741
Accrued interest payable	7,793	7,858
Accrued expenses	24,395	24,934
Advance deposits	13,790	8,360
Gift certificates payable	5,266	6,882
Other current liabilities	535	1,655
<b>Total current liabilities</b>	<b>127,743</b>	<b>125,657</b>
Mortgage debt	390,919	396,012
Other long-term debt	61,164	60,984
Deferred tax liability, net	43,840	43,713
Deferred compensation liability	2,616	2,164
<b>Total liabilities</b>	<b>626,282</b>	<b>628,530</b>
Commitments and contingencies (NOTE 8)		
Stockholders equity:		
Common stock, \$0.01 par value; 1,000 shares authorized; 200 shares issued and outstanding	0	0
Additional paid-in-capital	267,514	267,112

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Accumulated deficit	(15,258)	(14,048)
Total stockholders' equity	252,256	253,064
Total liabilities and stockholders' equity	\$ 878,538	\$ 881,594

See accompanying notes to the condensed consolidated financial statements.

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

(Unaudited; dollars in thousands)

	Successor Period Three months ended June 30, 2013		Predecessor Period May 5, 2012 through June 30, 2012		Successor Period Six months ended June 30, 2013		Predecessor Period May 5, 2012 through June 30, 2012		Predecessor Period January 1, 2012 through May 4, 2012	
<b>Revenues:</b>										
Rooms	\$ 46,113	\$ 28,054	\$ 18,368	\$ 95,096	\$ 28,054	\$ 63,793				
Food and beverage	12,449	8,121	4,726	25,003	8,121	17,273				
Other	12,044	7,267	4,615	24,525	7,267	15,920				
Management and other fees	887	480	701	1,914	480	1,398				
Management and other fees affiliates	1,050	535	441	2,077	535	1,414				
<b>Total operating revenues</b>	<b>72,543</b>	<b>44,457</b>	<b>28,851</b>	<b>148,615</b>	<b>44,457</b>	<b>99,798</b>				
Other revenue from managed properties	3,212	1,878	1,123	6,391	1,878	4,193				
Other revenue from managed properties affiliates	3,007	1,729	1,129	5,927	1,729	3,901				
<b>Total revenues</b>	<b>78,762</b>	<b>48,064</b>	<b>31,103</b>	<b>160,933</b>	<b>48,064</b>	<b>107,892</b>				
<b>Operating expenses by department:</b>										
Rooms	6,858	4,222	2,518	13,554	4,222	9,458				
Food and beverage	9,352	6,129	3,492	18,359	6,129	12,946				
Other	9,514	6,585	3,718	19,985	6,585	13,450				
<b>Other operating expenses:</b>										
Selling, general and administrative (including \$702, \$0, \$0, \$1,613, \$0 and \$0 to affiliates, respectively)	18,502	13,376	19,626	37,492	13,376	42,205				
Property operating costs	9,114	4,874	3,611	18,089	4,874	11,347				
Depreciation and amortization	10,461	7,779	4,450	22,336	7,779	16,469				
Loss on disposition of assets	68	0	47	170	0	47				
<b>Total operating expenses</b>	<b>63,869</b>	<b>42,965</b>	<b>37,462</b>	<b>129,985</b>	<b>42,965</b>	<b>105,922</b>				
Other expenses from managed properties	3,212	1,878	1,123	6,391	1,878	4,193				
Other expenses from managed properties affiliates	3,007	1,729	1,129	5,927	1,729	3,901				
<b>Total expenses</b>	<b>70,088</b>	<b>46,572</b>	<b>39,714</b>	<b>142,303</b>	<b>46,572</b>	<b>114,016</b>				
<b>Net operating income (loss)</b>	<b>8,674</b>	<b>1,492</b>	<b>(8,611)</b>	<b>18,630</b>	<b>1,492</b>	<b>(6,124)</b>				
Investment income affiliates	405	137	83	648	137	303				
Interest income	55	31	24	119	31	82				
Interest expense	(9,664)	(6,259)	(4,359)	(19,363)	(6,259)	(16,016)				
Equity in unconsolidated affiliates	(262)	(423)	461	(1,504)	(423)	558				
<b>Loss from continuing operations before income taxes</b>	<b>(792)</b>	<b>(5,022)</b>	<b>(12,402)</b>	<b>(1,470)</b>	<b>(5,022)</b>	<b>(21,197)</b>				
Income tax benefit (expense)	428	(258)	103	260	(258)	(276)				
<b>Net loss from continuing operations</b>	<b>(364)</b>	<b>(5,280)</b>	<b>(12,299)</b>	<b>(1,210)</b>	<b>(5,280)</b>	<b>(21,473)</b>				
Discontinued operations, net of tax	0	7	13	0	7	(23)				
<b>Net loss</b>	<b>(364)</b>	<b>(5,273)</b>	<b>(12,286)</b>	<b>(1,210)</b>	<b>(5,273)</b>	<b>(21,496)</b>				
	0	11	3	0	11	15				



## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Net income attributable to noncontrolling interest, net  
of tax

Net loss attributable to Great Wolf Resorts, Inc.	\$ (364)	\$ (5,262)	\$ (12,283)	\$ (1,210)	\$ (5,262)	\$ (21,481)
---	----------	------------	-------------	------------	------------	-------------

See accompanying notes to the condensed consolidated financial statements.

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

(Unaudited; dollars in thousands)

	Six months ended June 30, 2013	Successor Period May 5, 2012 through June 30, 2012	Predecessor Period January 1, 2012 through May 4, 2012
Operating activities:			
Net loss	\$ (1,210)	\$ (5,273)	\$ (21,496)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Depreciation and amortization	22,336	7,779	16,469
Bad debt expense	42	9	26
Amortization of debt fair value	(2,469)	(887)	0
Non-cash share-based compensation expense	508	868	3,348
Loss on disposition of assets	170	0	47
Equity in unconsolidated affiliates	1,504	423	(558)
Deferred tax (benefit) expense	(101)	36	73
Changes in operating assets and liabilities:			
Accounts receivable and other assets	277	(1,221)	(1,304)
Accounts payable, accrued expenses and other liabilities	1,689	(882)	3,694
Affiliate receivables and payables, net	655	93	1,379
Net cash provided by operating activities	23,401	945	1,678
Investing activities:			
Capital expenditures for property and equipment	(11,341)	(3,264)	(2,237)
Investment in unconsolidated affiliates	(6,712)	0	0
Investment in development	(2,775)	(14)	(75)
Proceeds from sale of assets	15	0	3
Increase in restricted cash and escrows	(31)	(1,279)	(3,464)
Net cash used in investing activities	(20,844)	(4,557)	(5,773)
Financing activities:			
Principal payments on debt	(3,331)	(392)	(1,777)
Payment of loan costs	(296)	(4)	(120)
Repurchase of stock for restricted stock tax withholding	(128)	0	0
Capital contribution	0	1,091	0
Net cash (used in) provided by financing activities	(3,755)	695	(1,897)
Net decrease in cash and cash equivalents	(1,198)	(2,917)	(5,992)
Cash and cash equivalents, beginning of period	28,124	27,775	33,767
Cash and cash equivalents, end of period	\$ 26,926	\$ 24,858	\$ 27,775
Supplemental Cash Flow Information:			
Cash paid for interest	\$ 21,897	\$ 2,177	\$ 20,499
Cash paid for income taxes, net of refunds	\$ 606	\$ 423	\$ 211
Non-cash investing activities:			

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Accrued capital expenditures

	\$	706	\$	0	\$	0
--	----	-----	----	---	----	---

See accompanying notes to the condensed consolidated financial statements.

**Table of Contents**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

- Note 1 Organization
- Note 2 Summary of Significant Accounting Policies
- Note 3 Revision of Prior Period Financial Statements
- Note 4 Related Party and Affiliate Transactions
- Note 5 Debt
- Note 6 Fair Value of Financial Instruments
- Note 7 Derivative Instruments
- Note 8 Commitments and Contingencies
- Note 9 Segments
- Note 10 Supplemental Guarantor Condensed Consolidating Financial Statements
- Note 11 Subsequent Events

---

**Table of Contents**

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

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited; dollars in thousands, except otherwise specified)**

**1. ORGANIZATION**

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

**Business Summary**

We are a family entertainment resort company that provides our guests with a high quality vacation at an affordable price. We are the largest owner, licensor, operator and developer in North America of drive-to destination family resorts featuring indoor waterparks and other family-oriented entertainment activities. Each of our resorts features approximately 300 to 600 family suites, each of which sleeps from six to ten people and includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our primary target customer base: families with children ranging in ages from 2 to 12 years old that live within a convenient driving distance of our resorts. Several of our resorts have significant meeting space or conference centers, allowing us to also attract groups in addition to our leisure guests. Our resorts are open year-round and provide a consistent, comfortable environment where our guests can enjoy our various amenities and activities. We operate and license resorts under our Great Wolf Lodge® brand name. We own and operate the majority of the resorts in our portfolio; we have also entered into licensing and management arrangements with third parties relating to the operation of resorts under the Great Wolf Lodge brand name.

Each of our Great Wolf Lodge resorts has a Northwoods lodge theme, designed with exposed timber beams, massive stone fireplaces, Northwoods creatures including mounted wolves and an animated two-story Clock Tower that provides theatrical entertainment for younger guests. We provide our guests with a self-contained vacation experience and focus on capturing a significant portion of their total vacation spending. We earn revenues through the sale of rooms (which includes admission to our indoor waterpark), and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, ice cream shop and confectionery, kid spa, game arcade, gift shop, miniature golf, interactive game attraction and meeting space. We also generate revenues from licensing fees, management fees and other fees with respect to our operation or development of properties owned in whole or in part by third parties.

On May 4, 2012, the Company merged (the Merger) with K-9 Acquisition, Inc., a Delaware corporation (Merger Sub) and subsidiary of a fund managed by an affiliate of Apollo Global Management, LLC (together with its subsidiaries, Apollo). Although the Company continued as the same legal entity after the Merger, the Company's capital structure changed significantly as a result of the Merger and our financial statement presentations distinguish between a Predecessor for periods prior to the Merger and a Successor for periods subsequent to the Merger. As a result of the application of the acquisition method of accounting as of the effective time of the Merger, the financial statements for the Predecessor period and for the Successor period are presented on different bases and are, therefore, not comparable.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Basis of Presentation* We have prepared these unaudited condensed consolidated financial statements and related notes in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures typically included in an annual report have been condensed or omitted for this quarterly report. The balance sheet as of December 31, 2012 was derived from the audited financial statements. Therefore, these interim unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements, accompanying notes and other information included in our Annual Report on Form 10-K for the year ended December 31, 2012.

In the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly in all material respects the financial position, results of operations and cash flows for all periods presented have been made. Our business is seasonal and for this and other reasons operating results for interim periods may not be indicative of our full year results or future performance.

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

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Noncontrolling Interests. Creative Kingdoms, LLC ( Creative Kingdoms ) was a consolidated subsidiary with a noncontrolling interest through December 28, 2012, at which time we purchased the entire noncontrolling interest. Prior to that date, the net earnings attributable to the controlling and noncontrolling interests were included on the face of our condensed consolidated statements of income.

## **Table of Contents**

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

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

We have equity investments in the joint ventures that own (i) the Great Wolf Lodge resort in Grand Mound, Washington ( Grand Mound ) and (ii) the Great Wolf Lodge resort which is to be developed in Garden Grove, California ( Garden Grove ) as described in Note 4. We manage each resort, and we have concluded that both joint ventures are variable interest entities due to the management contracts that provide us with certain rights. However, we have concluded that we are not the primary beneficiary because the majority equity owners of each joint venture have substantive participating rights over the activities that most significantly impact the economic performance of each joint venture. As a result, we have concluded that power is shared between us and the other equity investors in each joint venture. As we share power with the majority equity owners, we are not the primary beneficiary of either joint venture and, therefore, we do not consolidate these entities. Our maximum exposure to loss related to our involvement with each joint venture as of June 30, 2013 and December 31, 2012 is limited to the carrying value of our equity investment in the joint ventures and receivables as of those dates. Our exposure is limited because of the non-recourse nature of the borrowings of the joint ventures. The total carrying values of those items on our condensed consolidated balance sheet as of June 30, 2013 and December 31, 2012 is \$38,195 and \$30,382, respectively, and are included in the Accounts receivable affiliates and Investments in and advances to unconsolidated affiliates line items on our condensed consolidated balance sheets.

**Reclassifications** We have reclassified (i) Affiliate receivables and payables, net in our 2012 condensed consolidated statements of cash flows on a separate line to present related party transactions on the face of the statement, and (ii) income tax expense from Equity in unconsolidated affiliates to Income tax expense in our 2012 condensed consolidated statements of income as equity in unconsolidated affiliates is presented within loss from continuing operations before income taxes and no longer presented net of tax, to conform to the 2013 presentation.

**Discontinued Operations** On March 24, 2011, we sold our Blue Harbor Resort. As a result of the sale, we have included the operations of the Blue Harbor Resort in discontinued operations for all prior periods presented. The operations and cash flows of the entity have been eliminated from the ongoing operations and we do not have any significant continuing involvement in the operations of the entity after the disposal transaction.

**Income Taxes** At the end of each interim reporting period, we estimate the effective tax rate expected to be applicable for the full fiscal year. We use that estimated effective tax rate in providing for income taxes on a year-to-date basis. We account for the tax effect of significant unusual or extraordinary items in the period in which they occur. We account for major changes in our valuation allowance within continuing operations in the period in which they occur.

**New Accounting Pronouncements** We have considered all recently issued accounting pronouncements and do not believe the adoption of such pronouncements will have a material impact on our condensed consolidated financial statements.

### **3. REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS**

In connection with the preparation of our condensed consolidated financial statements for the first quarter of 2013, we identified an error in the timely recording for separation payments. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 99, *Materiality*), we assessed the materiality of the error and concluded that the error was not material to any of our previously issued financial statements. In accordance with accounting guidance found in ASC 250-10 (SEC Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*), we revised our previously issued financial statements to correct the effect of this error. As the revision relates to the fourth quarter of 2012, it will be reflected in future filings as applicable.





**Table of Contents**

The following table presents the effect of this correction on the Company's Consolidated Balance Sheet as of December 31, 2012 and on the Consolidated Statement of Income, Consolidated Statement of Equity and Consolidated Statement of Cash Flows for the successor period May 5, 2012 through December 31, 2012:

	As Previously Reported	Adjustment	As Revised
<b>December 31, 2012</b>			
Consolidated Balance Sheet			
Accrued expenses	\$ 23,888	\$ 1,046	\$ 24,934
Total current liabilities	124,611	1,046	125,657
Total liabilities	627,484	1,046	628,530
Accumulated deficit	(13,002)	(1,046)	(14,048)
Total stockholders' equity	254,110	(1,046)	253,064
<b>Period May 5, 2012 through December 31, 2012</b>			
Consolidated Statement of Income			
Selling, general and administrative	51,930	1,046	52,976
Total operating expenses	177,591	1,046	178,637
Total expenses	193,190	1,046	194,236
Net operating income	13,996	(1,046)	12,950
Loss from continuing operations before income taxes	(11,425)	(1,046)	(12,471)
Net loss from continuing operations	(13,094)	(1,046)	(14,140)
Net loss	(13,085)	(1,046)	(14,131)
Net loss attributable to Great Wolf Resorts, Inc.	(13,002)	(1,046)	(14,048)
Consolidated Statement of Equity			
Net loss attributable to Great Wolf Resorts, Inc.	(13,002)	(1,046)	(14,048)
Accumulated deficit	(13,002)	(1,046)	(14,048)
Consolidated Statement of Cash Flow			
Net loss	(13,085)	(1,046)	(14,131)
Accounts payable, accrued expenses and other liabilities	1,000	1,046	2,046

**4. RELATED PARTY AND AFFILIATE TRANSACTIONS**

Our related parties and affiliates include (i) members of the joint venture that own the Great Wolf Lodge resort in Grand Mound, Washington, (ii) members of the joint venture that own the Great Wolf Lodge which is to be developed in Garden Grove, California and (iii) Apollo, our indirect controlling shareholder.

Our unconsolidated joint venture with The Confederated Tribes of the Chehalis Reservation owns the Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. On March 21, 2013, each joint venture partner made an additional investment of \$6,712 in preferred equity of the unconsolidated joint venture. Our ownership interest remains at 49%.

Our unconsolidated joint venture with an affiliate of McWhinney Real Estate Services, Inc. owns the Great Wolf Lodge resort and conference center to be developed on a 10.8-acre land parcel in Garden Grove, California. Our ownership interest in this joint venture is 15.28%.

We regularly transact business with our related parties and affiliates. The following summarizes our transactions:

	Successor		Predecessor		Successor		Predecessor	
	Three months ended June 30, 2013	Period May 5, 2012 through June 30, 2012	Period April 1, 2012 through May 4, 2012	Six months ended June 30, 2013	Period May 5, 2012 through June 30, 2012	Period January 1, 2012 through May 4, 2012		
Management and other fees	\$ 1,050	\$ 535	\$ 441	\$ 2,077	\$ 535	\$ 1,414		
Other revenue from managed properties	3,007	1,729	1,129	5,927	1,729	3,901		
Selling, general and administrative	702	0	0	1,613	0	0		
Other expenses from managed properties	3,007	1,729	1,129	5,927	1,729	3,901		

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Investment income	405	137	83	648	137	303
-------------------	-----	-----	----	-----	-----	-----

**Table of Contents**

	June 30, 2013	December 31, 2012
Accounts receivable	\$ 5,157	\$ 5,145
Investments in and advances to unconsolidated affiliates	33,236	25,697
Accounts payable	2,402	1,741

**5. DEBT**

Debt consists of the following:

	Carrying Value		Principal Amounts June 30, 2013
	June 30, 2013	December 31, 2012	
<b>Mortgage Debt:</b>			
Traverse City/Kansas City mortgage loan	\$ 61,660	\$ 62,215	\$ 62,914
Pocono Mountains mortgage loan	92,244	93,114	90,984
Concord mortgage loan	47,440	49,158	47,285
First mortgage notes	255,456	258,293	230,000
<b>Other Long-Term Debt:</b>			
Junior subordinated debentures	61,164	60,984	80,545
	517,964	523,764	511,728
Less current portion of long-term debt	(65,881)	(66,768)	(65,881)
<b>Total long-term debt</b>	<b>\$ 452,083</b>	<b>\$ 456,996</b>	<b>\$ 445,847</b>

The carrying value amounts as of June 30, 2013 and December 31, 2012, include net fair value adjustments that are amortized to interest expense over the life of each loan, using the effective interest rate method. The unamortized fair value adjustment as of June 30, 2013 and December 31, 2012 was \$6,236 and \$8,705, respectively.

*Traverse City/Kansas City Mortgage Loan* This non-recourse loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of approximately 7.00%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2013. While recourse under the loan is limited to the property owner's interest in the mortgaged property, we have provided limited guarantees with respect to certain customary non-recourse provisions and environmental indemnities relating to the loan.

In September 2010, the loan's master servicer implemented a lock-box cash management arrangement. The lock-box cash management arrangement requires substantially all cash receipts for the two resorts to be moved each day to a lender-controlled bank account, which the loan servicer then uses to fund debt service and operating expenses for the two resorts on a monthly basis, with excess cash flow being deposited in a reserve account and held as additional collateral for the loan. Therefore, we have classified the entire outstanding principal balance of the loan as a current liability as of June 30, 2013 and December 31, 2012, since the lock-box arrangement requires us to use the properties' working capital to service the loan, and we do not presently have the ability to refinance this loan to a new, long-term loan. Although the entire principal balance of the loan is classified as a current liability as of June 30, 2013 and December 31, 2012, the loan is not in default, and the principal balance is not due currently.

*Pocono Mountains Mortgage Loan* This loan is secured by a mortgage on our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in January 2017. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at June 30, 2013.

*Concord Mortgage Loan* This loan is secured by a mortgage on our Concord resort. This loan bears interest at a floating rate of 30-day LIBOR plus a spread of 500 basis points with a minimum rate of 6.00% per annum (effective rate of 6.00% at June 30, 2013 and December 31, 2012) and matures on December 31, 2016. This loan requires four quarterly principal payments of \$375. We are required to provide interest rate protection on a portion of the loan amount through the loan's maturity date. Therefore, we executed interest rate caps that cap the loan at an

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

8.00% interest rate through December 2016. See Note 7 for additional discussion of the interest rate caps. We were in compliance with all covenants under this loan at June 30, 2013.

**Table of Contents**

*First Mortgage Notes* In April 2010, we completed, in a private placement followed by a registered exchange offer, an offering of \$230,000 in aggregate principal amount of our 10.875% first mortgage notes (the Notes) due April 2017. The Notes were sold at a discount that provides an effective yield of 11.875% before transaction costs. The Notes are senior obligations of GWR Operating Partnership, L.L.P. and Great Wolf Finance Corp ( Issuers ). The Notes are guaranteed by Great Wolf Resorts and by our subsidiaries that own three of our resorts and those guarantees are secured by first priority mortgages on those three resorts. The Notes are also guaranteed by certain of our other subsidiaries on a senior unsecured basis.

*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 fixed rate of 7.80% through March 2015 and then at a floating annual rate of LIBOR plus a spread of 310 basis points thereafter. The securities mature in March 2035 and are callable at no premium after March 2010. In addition, we invested \$1,550 in Trust I s common securities, representing 3% of the total capitalization of Trust I.

In March 2012, we completed an exchange through Great Wolf Capital Trust IV ( Trust IV ), a Delaware statutory trust which is our subsidiary, and issued \$28,125 of TPS in exchange for all \$28,125 of TPS of Great Wolf Capital Trust III ( Trust III ). The securities pay holders cumulative cash distributions at an annual fixed rate of 7.90% through July 2012 and at a floating annual rate equal to LIBOR plus 550 basis points thereafter (effective rate of 5.78% and 5.81% at June 30, 2013 and December 31, 2012, respectively). The securities mature in July 2017 and are callable at no premium after July 2012. In conjunction with this transaction, Trust IV issued to us 870 common securities, which are all of the issued and outstanding common securities of Trust IV, with a liquidation amount of \$870. In addition, in conjunction with this transaction, we issued to Trust IV \$28,995 of junior subordinated debentures with payment terms that mirror the distribution terms of the TPS of Trust IV.

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

For a description of the refinancing of certain of our debt that occurred after June 30, 2013, see the information provided under Note 11.

**6. FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

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

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

**Table of Contents**

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

**June 30, 2013**

	Level 1	Level 2	Level 3	Total
Interest rate caps	\$ 0	\$ 203	\$ 0	\$ 203

**December 31, 2012**

	Level 1	Level 2	Level 3	Total
Interest rate caps	\$ 0	\$ 115	\$ 0	\$ 115

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

As of June 30, 2013 and December 31, 2012, we estimate the total fair value of the interest rate caps described above to be approximately equal to their total carrying values. We based the fair value of the interest rate caps on available market data for similar securities, which would be categorized as Level 2 in the fair value hierarchy.

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

**7. DERIVATIVE INSTRUMENTS**

In connection with the refinancing of the Concord Mortgage loan, we were required to provide interest rate protection on a portion of the loan amount through the loan's maturity date. Therefore, we executed interest rate caps that cap the loan at an 8.00% interest rate through December 2016. The interest rate caps were not designated as hedges. We mark the interest rate caps to market and record the change to interest expense.

The following table summarizes the fair value of derivative instruments in our condensed consolidated balance sheets:

	Balance Sheet Classification	Fair Value as of	
		June 30, 2013	December 31, 2012
Derivatives not designated as hedging instruments			
Interest rate caps	Other assets	\$ 203	\$ 115

The following table summarizes the effect of derivatives not designated as hedging instruments in our condensed consolidated statements of income:

Income Statement Classification	Gain (Loss) Recognized (Pre-tax)					
	Three months ended June 30, 2013	Period May 5, 2012 through June 30, 2012	Period April 1, 2012 through May 4, 2012	Six months ended June 30, 2013	Period May 5, 2012 through June 30, 2012	Period May 5, 2012 through May 4, 2012
Derivatives not designated as hedging instruments						
Interest rate caps	Interest expense	\$ 82	(144)	0	87	(144)
						\$ (34)

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

For a description of the settlement of these interest rate caps in connection with the refinancing of certain of our debt that occurred after June 30, 2013, see the information provided under Note 11.

### 8. COMMITMENTS AND CONTINGENCIES

*Litigation* On and after March 14, 2012, the Company and certain of its current and former officers and directors and, in some cases, some or all of K-9 Investors, L.P., Apollo Management VII, L.P., Apollo Global Management, LLC and K-9 and Merger Sub were named as defendants in five class action lawsuits filed in the Delaware Court of Chancery which were ultimately consolidated into a single class action (the Delaware Action ). In the Delaware Action, the plaintiff, on behalf of a putative class of stockholders, sought to enjoin the proposed transaction that was the subject of the Merger Agreement. Other lawsuits were filed in Wisconsin state and federal court two in the Circuit Court, Civil Division for Dane County, one of which was dismissed by the plaintiff prior to settlement (the surviving action, Wisconsin State Court Action ), and one in the United States District Court for the Western District of Wisconsin (the Wisconsin Federal Court Action ).

---

**Table of Contents**

On April 25, 2012, the parties to the Delaware Action and the Wisconsin State Court Action reached an agreement in principle to settle those cases. The proposed settlement, which was subject to court approval, provided for, among other things, the dismissal with prejudice of plaintiffs complaints and of all claims asserted therein, that all parties granted all applicable releases of claims against all other parties, and that the parties to the Delaware Action and the Wisconsin State Court Action acknowledged that the plaintiffs and their counsel in those cases would petition the appropriate court or courts for an award of attorneys' fees and expenses in connection with the cases. Any award of fees and expenses to plaintiffs' counsel was subject to approval by the appropriate court or courts. Pursuant to an order from the Delaware Court of Chancery, notice to the class was mailed on October 19, 2012.

On April 30, 2012, the parties to the Wisconsin Federal Court Action agreed to settle that case, subject to court approval of the proposed class-wide settlement in the Delaware Action and entry of a final order dismissing the Delaware Action in its entirety. Pursuant to their agreement, the parties to the Wisconsin Federal Court Action filed with the court, on April 30, 2012, a stipulation providing that the Wisconsin Federal Court Action be voluntarily dismissed with respect to all defendants and that such dismissal would be with prejudice as to the plaintiff upon the consummation of the settlement of the Delaware Action.

On September 27, 2012, the parties to the Delaware Action agreed to settle that case. Pursuant to their agreement, the parties to the Delaware Action filed with the Delaware Court of Chancery on September 27, 2012, a stipulation providing that the Delaware Action be voluntarily dismissed with respect to all defendants and that such dismissal be with prejudice as to the plaintiff.

On December 18, 2012, the Delaware Court of Chancery approved the class-wide settlement in the Delaware Action and entered a final order dismissing the Delaware Action in its entirety. It awarded counsel for the plaintiffs in the Delaware Action fees and expenses in the amount of \$1,940, which was paid in 2013.

The Company, the members of the Board of Directors, Apollo Management VII, L.P., Apollo Global Management, LLC, K-9 and Merger Sub each have denied, and continue to deny, that they committed or attempted to commit any violation of law or breach of fiduciary duty owed to the Company and/or its stockholders, aided or abetted any breach of fiduciary duty, or otherwise engaged in any of the wrongful acts alleged in all of these cases. All of the defendants expressly maintain that they complied with their fiduciary and other legal duties. However, in order to avoid the costs, disruption and distraction of further litigation, and without admitting the validity of any allegation made in the actions or any liability with respect thereto, the defendants concluded that it is desirable to settle the claims against them on the terms reflected in the settlements.

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

**9. SEGMENTS**

We have two reportable segments:

Resort ownership/operation    aggregated operating results derived from our consolidated owned resorts; and

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

The Other items in the table below includes items that do not constitute a reportable segment and represent corporate-level activities and the activities of other operations not included in the Resort Ownership/Operation or Resort Third-Party Management/License segments. Total assets at the corporate level primarily consist of cash, our investment in affiliates, and intangibles. Total assets for all segments are located within the United States.



**Table of Contents**

The following summarizes significant financial information regarding our segments:

	<b>Resort Ownership/ Operation</b>	<b>Resort Third-Party Management /License</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Three months ended June 30, 2013 (Successor)</b>				
Revenues	\$ 69,544	\$ 8,156	\$ 1,062	\$ 78,762
Depreciation and amortization	9,738		723	10,461
Net operating income (loss)	7,379	1,937	(642)	8,674
Investment income affiliates				405
Interest income				55
Interest expense				(9,664)
Equity in unconsolidated affiliates				(262)
Loss from continuing operations before income taxes				\$ (792)
Additions to long-lived assets	9,334		388	\$ 9,722
	<b>Resort Ownership/ Operation</b>	<b>Resort Third-Party Management /License</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Period May 5, 2012 through June 30, 2012 (Successor)</b>				
Revenues	\$ 42,664	\$ 4,622	\$ 778	\$ 48,064
Depreciation and amortization	6,950		829	7,779
Net operating income (loss)	3,385	1,012	(2,905)	1,492
Investment income affiliates				137
Interest income				31
Interest expense				(6,259)
Equity in unconsolidated affiliates				(423)
Loss from continuing operations before income taxes				\$ (5,022)
Additions to long-lived assets	3,258		6	\$ 3,264
Total assets	758,652	1,207	109,836	\$ 869,695

**Table of Contents**

	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
<b>Period April 1, 2012 through May 4, 2012 (Predecessor)</b>				
Revenues	\$ 27,157	\$ 3,394	\$ 552	\$ 31,103
Depreciation and amortization	4,179		271	4,450
Net operating income (loss)	3,280	1,143	(13,034)	(8,611)
Investment income affiliates				83
Interest income				24
Interest expense				(4,359)
Equity in unconsolidated affiliates				461
Loss from continuing operations before income taxes				\$ (12,402)
	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
<b>Six months ended June 30, 2013 (Successor)</b>				
Revenues	\$ 142,866	\$ 16,309	\$ 1,758	\$ 160,933
Depreciation and amortization	20,392		1,944	22,336
Net operating income (loss)	19,579	3,991	(4,940)	18,630
Investment income affiliates				648
Interest income				119
Interest expense				(19,363)
Equity in unconsolidated affiliates				(1,504)
Loss from continuing operations before income taxes				\$ (1,470)
Additions to long-lived assets	10,788		553	\$ 11,341
Total assets	752,521	7,825	118,192	\$ 878,538
	Resort Ownership/ Operation	Resort Third-Party Management /License	Other	Totals per Financial Statements
<b>Period January 1, 2012 through May 4, 2012 (Predecessor)</b>				
Revenues	\$ 95,876	\$ 10,906	\$ 1,110	\$ 107,892
Depreciation and amortization	15,476		993	16,469
Net operating income (loss)	11,070	2,813	(20,007)	(6,124)
Investment income affiliates				303
Interest income				82
Interest expense				(16,016)
Equity in unconsolidated affiliates				558
Loss from continuing operations before income taxes				\$ (21,197)

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Additions to long-lived assets	2,173	64	\$	2,237
--------------------------------	-------	----	----	-------

**Table of Contents**

**10. SUPPLEMENTAL GUARANTOR CONDENSED CONSOLIDATING FINANCIAL STATEMENTS**

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

The following tables present the condensed consolidating balances sheets of the Company ( Parent ), the Issuers, the Subsidiary Guarantors and the Non-Guarantor Subsidiaries , the condensed consolidating statements of income for the three months ended June 30, 2013, period May 5, 2012 through June 30,2012, period April 1, 2012 through May 4, 2012, six months ended June 30, 2013 and period January 1, 2012 through May 4, 2012, and the condensed consolidating statements of cash flows for the six months ended June 30, 2013, period May 5, 2012 through June 1, 2012 and period January 1, 2012 through May 4, 2012. The Subsidiary Guarantors have guaranteed the first mortgage notes on a joint and several basis, and such guarantees are full and unconditional.

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

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATING BALANCE SHEET**

June 30, 2013

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 9,334	\$ 11,182	\$ 1,359	\$ 5,051	\$ 0	\$ 26,926
Restricted cash	1,026	0	0	5,093	0	6,119
Escrows	0	0	0	5,093	0	5,093
Accounts receivable, net	229	256	4,302	1,078	0	5,865
Accounts receivable affiliate	0	0	2,835	2,322	0	5,157
Accounts receivable consolidating entities	281,844	617,244	593,752	89,314	(1,582,154)	0
Inventory	0	0	3,625	3,931	0	7,556
Other current assets	1,247	8	1,778	1,793	0	4,826
<b>Total current assets</b>	<b>293,680</b>	<b>628,690</b>	<b>607,651</b>	<b>113,675</b>	<b>(1,582,154)</b>	<b>61,542</b>
Property and equipment, net	0	0	321,241	283,594	0	604,835
Investments in consolidating entities	263,304	286,760	0	0	(550,064)	0
Investments in and advances to affiliates	0	3,143	0	30,093	0	33,236
Other assets	2,476	229	4,342	214	0	7,261
Goodwill	0	0	55,468	68,967	0	124,435
Intangible assets, net	0	0	47,103	126	0	47,229
<b>Total assets</b>	<b>\$ 559,460</b>	<b>\$ 918,822</b>	<b>\$ 1,035,805</b>	<b>\$ 496,669</b>	<b>\$ (2,132,218)</b>	<b>\$ 878,538</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Current liabilities:						
Current portion of long-term debt	\$ 0	\$ 0	\$ 0	\$ 65,881	\$ 0	\$ 65,881
Accounts payable	15	2,116	3,289	2,261	0	7,681
Accounts payable affiliate	41	2,351	10	0	0	2,402
Accounts payable consolidating entities	194,906	389,132	772,401	225,715	(1,582,154)	0
Accrued interest payable	619	6,253	0	921	0	7,793
Accrued expenses	3,147	210	13,299	7,739	0	24,395
Advance deposits	0	0	7,391	6,399	0	13,790
Gift certificates payable	3,472	0	791	1,003	0	5,266
Other current liabilities	0	0	315	220	0	535
<b>Total current liabilities</b>	<b>202,200</b>	<b>400,062</b>	<b>797,496</b>	<b>310,139</b>	<b>(1,582,154)</b>	<b>127,743</b>
Mortgage debt	0	255,456	0	135,463	0	390,919
Other long-term debt	61,164	0	0	0	0	61,164
Deferred tax liability, net	43,840	0	0	0	0	43,840
Deferred compensation liability	0	0	2,616	0	0	2,616
<b>Total liabilities</b>	<b>307,204</b>	<b>655,518</b>	<b>800,112</b>	<b>445,602</b>	<b>(1,582,154)</b>	<b>626,282</b>
Commitments and contingencies						
Stockholders' equity:						
Common stock	0	0	0	0	0	0
Additional paid-in-capital	267,514	262,773	207,615	55,158	(525,546)	267,514

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Accumulated deficit	(15,258)	531	28,078	(4,091)	(24,518)	(15,258)
Total equity	252,256	263,304	235,693	51,067	(550,064)	252,256
Total liabilities and equity	\$ 559,460	\$ 918,822	\$ 1,035,805	\$ 496,669	\$ (2,132,218)	\$ 878,538

**Table of Contents****CONSOLIDATING BALANCE SHEET**

December 31, 2012

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 10,188	\$ 7,524	\$ 1,260	\$ 9,152	\$ 0	\$ 28,124
Restricted cash	1,026	0	0	3,133	0	4,159
Escrows	0	0	0	7,022	0	7,022
Accounts receivable, net	1,510	0	3,593	2,517	0	7,620
Accounts receivable affiliates	1	0	3,475	1,669	0	5,145
Accounts receivable consolidating entities	286,950	516,074	532,841	72,650	(1,408,515)	0
Inventory	0	0	2,809	4,394	0	7,203
Other current assets	149	0	2,249	1,886	0	4,284
<b>Total current assets</b>	<b>299,824</b>	<b>523,598</b>	<b>546,227</b>	<b>102,423</b>	<b>(1,408,515)</b>	<b>63,557</b>
Property and equipment, net	0	0	327,346	287,709	0	615,055
Investment in consolidating entities	259,419	272,492	0	0	(531,911)	0
Investment in and advances to affiliates	0	0	1,476	24,221	0	25,697
Other assets	2,472	1	2,789	144	0	5,406
Goodwill	0	0	55,468	68,967	0	124,435
Intangible assets, net	0	0	47,444	0	0	47,444
<b>Total assets</b>	<b>\$ 561,715</b>	<b>\$ 796,091</b>	<b>\$ 980,750</b>	<b>\$ 483,464</b>	<b>\$ (1,940,426)</b>	<b>\$ 881,594</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>						
Current liabilities:						
Current portion of long-term debt	\$ 0	\$ 0	\$ 0	\$ 66,768	\$ 0	\$ 66,768
Accounts payable	0	1,773	3,146	2,633	(93)	7,459
Accounts payable affiliates	0	1,739	2	0	0	1,741
Accounts payable consolidating entities	194,546	268,601	734,219	210,327	(1,407,693)	0
Accrued interest payable	625	6,253	0	980	0	7,858
Accrued expenses	3,301	13	14,593	7,027	0	24,934
Advance deposits	0	0	3,220	5,140	0	8,360
Gift certificates payable	4,687	0	960	1,235	0	6,882
Other current liabilities	795	0	278	1,311	(729)	1,655
<b>Total current liabilities</b>	<b>203,954</b>	<b>278,379</b>	<b>756,418</b>	<b>295,421</b>	<b>(1,408,515)</b>	<b>125,657</b>
Mortgage debt	0	258,293	0	137,719	0	396,012
Other long-term debt	60,984	0	0	0	0	60,984
Deferred tax liability, net	43,713	0	0	0	0	43,713
Deferred compensation liability	0	0	2,164	0	0	2,164
<b>Total liabilities</b>	<b>308,651</b>	<b>536,672</b>	<b>758,582</b>	<b>433,140</b>	<b>(1,408,515)</b>	<b>628,530</b>
Commitments and contingencies						
Stockholders equity:						
Common stock	0	0	0	0	0	0
Additional paid-in-capital	267,112	262,773	207,615	55,158	(525,546)	267,112
Accumulated deficit	(14,048)	(3,354)	14,553	(4,834)	(6,365)	(14,048)

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Total equity	253,064	259,419	222,168	50,324	(531,911)	253,064
Total liabilities and equity	\$ 561,715	\$ 796,091	\$ 980,750	\$ 483,464	\$ (1,940,426)	\$ 881,594



**Table of Contents****UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Three months ended June 30, 2013

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Revenues:</b>						
Rooms	\$ 0	\$ 0	\$ 23,762	\$ 22,351	\$ 0	\$ 46,113
Food and beverage	0	0	6,456	5,993	0	12,449
Other	0	0	5,612	6,432	0	12,044
Management and other fees	100	0	3,458	26	(2,697)	887
Management and other fees affiliates	0	0	1,050	0	0	1,050
<b>Total operating revenues</b>	<b>100</b>	<b>0</b>	<b>40,338</b>	<b>34,802</b>	<b>(2,697)</b>	<b>72,543</b>
Other revenue from managed properties	0	0	3,212	0	0	3,212
Other revenue from managed properties affiliates	0	0	3,007	0	0	3,007
<b>Total revenues</b>	<b>100</b>	<b>0</b>	<b>46,557</b>	<b>34,802</b>	<b>(2,697)</b>	<b>78,762</b>
<b>Operating expenses by department:</b>						
Rooms	0	0	3,439	3,868	(449)	6,858
Food and beverage	0	0	4,976	4,376	0	9,352
Other	0	0	4,576	4,938	0	9,514
<b>Other operating expenses:</b>						
Selling, general and administrative	2,002	233	10,276	8,239	(2,248)	18,502
Property operating costs	0	0	3,991	5,123	0	9,114
Depreciation and amortization	0	0	5,660	4,801	0	10,461
Loss on disposition of assets	0	0	0	68	0	68
<b>Total operating expenses</b>	<b>2,002</b>	<b>233</b>	<b>32,918</b>	<b>31,413</b>	<b>(2,697)</b>	<b>63,869</b>
Other expenses from managed properties	0	0	3,212	0	0	3,212
Other expenses from managed properties affiliates	0	0	3,007	0	0	3,007
<b>Total expenses</b>	<b>2,002</b>	<b>233</b>	<b>39,137</b>	<b>31,413</b>	<b>(2,697)</b>	<b>70,088</b>
Net operating (loss) income	(1,902)	(233)	7,420	3,389	0	8,674
Investment income affiliates	0	0	0	405	0	405
Interest income	45	3	0	7	0	55
Interest expense	(1,531)	(4,858)	0	(3,275)	0	(9,664)
Equity in unconsolidated affiliates	2,398	7,486	0	(262)	(9,884)	(262)
(Loss) income from continuing operations before income taxes	(990)	2,398	7,420	264	(9,884)	(792)
Income tax benefit (expense)	626	0	(24)	(174)	0	428
<b>Net (loss) income attributable to Great Wolf Resorts, Inc.</b>	<b>\$ (364)</b>	<b>\$ 2,398</b>	<b>\$ 7,396</b>	<b>\$ 90</b>	<b>\$ (9,884)</b>	<b>\$ (364)</b>



**Table of Contents****UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Period May 5, 2012 through June 30, 2012

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Revenues:</b>						
Rooms	\$ 0	\$ 0	\$ 15,258	\$ 12,796	\$ 0	\$ 28,054
Food and beverage	0	0	4,291	3,830	0	8,121
Other	0	0	3,433	3,834	0	7,267
Management and other fees	52	0	3,830	3	(3,405)	480
Management and other fees affiliates	0	0	535	0	0	535
<b>Total operating revenues</b>	<b>52</b>	<b>0</b>	<b>27,347</b>	<b>20,463</b>	<b>(3,405)</b>	<b>44,457</b>
Other revenue from managed properties	0	0	1,878	0	0	1,878
Other revenue from managed properties affiliates	0	0	1,729	0	0	1,729
<b>Total revenues</b>	<b>52</b>	<b>0</b>	<b>30,954</b>	<b>20,463</b>	<b>(3,405)</b>	<b>48,064</b>
<b>Operating expenses by department:</b>						
Rooms	0	0	2,391	2,394	(563)	4,222
Food and beverage	0	0	3,323	2,806	0	6,129
Other	0	0	2,923	3,662	0	6,585
<b>Other operating expenses:</b>						
Selling, general and administrative	1,349	20	9,795	5,054	(2,842)	13,376
Property operating costs	0	0	2,653	2,221	0	4,874
Depreciation and amortization	0	0	3,827	3,952	0	7,779
<b>Total operating expenses</b>	<b>1,349</b>	<b>20</b>	<b>24,912</b>	<b>20,089</b>	<b>(3,405)</b>	<b>42,965</b>
Other expenses from managed properties	0	0	1,878	0	0	1,878
Other expenses from managed properties affiliates	0	0	1,729	0	0	1,729
<b>Total expenses</b>	<b>1,349</b>	<b>20</b>	<b>28,519</b>	<b>20,089</b>	<b>(3,405)</b>	<b>46,572</b>
<b>Net operating (loss) income</b>	<b>(1,297)</b>	<b>(20)</b>	<b>2,435</b>	<b>374</b>	<b>0</b>	<b>1,492</b>
Investment income affiliates	0	0	0	137	0	137
Interest income	31	0	0	0	0	31
Interest expense	(931)	(3,009)	0	(2,319)	0	(6,259)
Equity in unconsolidated affiliates	(3,009)	20	0	(423)	2,989	(423)
<b>(Loss) income from continuing operations before income taxes</b>	<b>(5,206)</b>	<b>(3,029)</b>	<b>2,435</b>	<b>(2,231)</b>	<b>0</b>	<b>(5,022)</b>
Income tax expense	(56)	0	(94)	(108)	0	(258)
<b>Net (loss) income from continuing operations</b>	<b>(5,262)</b>	<b>(3,009)</b>	<b>2,341</b>	<b>(2,339)</b>	<b>2,989</b>	<b>(5,280)</b>
Discontinued operations, net of tax	0	0	0	7	0	7
<b>Net (loss) income</b>	<b>(5,262)</b>	<b>(3,009)</b>	<b>2,341</b>	<b>(2,332)</b>	<b>2,989</b>	<b>(5,273)</b>
	0	0	0	11	0	11

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Net income attributable to noncontrolling interest,  
net of tax

Net (loss) income attributable to Great Wolf Resorts, Inc.	\$ (5,262)	\$ (3,009)	\$ 2,341	\$ (2,321)	\$ 2,989	\$ (5,262)
---	------------	------------	----------	------------	----------	------------

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Period April 1, 2012 through May 4, 2012

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Revenues:</b>						
Rooms	\$ 0	\$ 0	\$ 8,714	\$ 9,654	\$ 0	\$ 18,368
Food and beverage	0	0	2,225	2,501	0	4,726
Other	0	0	1,918	2,697	0	4,615
Management and other fees	30	0	2,506	2	(1,837)	701
Management and other fees affiliates	0	0	441	0	0	441
<b>Total operating revenues</b>	<b>30</b>	<b>0</b>	<b>15,804</b>	<b>14,854</b>	<b>(1,837)</b>	<b>28,851</b>
Other revenue from managed properties	0	0	1,123	0	0	1,123
Other revenue from managed properties affiliates	0	0	1,129	0	0	1,129
<b>Total revenues</b>	<b>30</b>	<b>0</b>	<b>18,056</b>	<b>14,854</b>	<b>(1,837)</b>	<b>31,103</b>
<b>Operating expenses by department:</b>						
Rooms	0	0	1,442	1,444	(368)	2,518
Food and beverage	0	0	1,734	1,758	0	3,492
Other	0	0	1,580	2,138	0	3,718
<b>Other operating expenses:</b>						
Selling, general and administrative	9,857	13	7,279	3,946	(1,469)	19,626
Property operating costs	0	0	1,531	2,080	0	3,611
Depreciation and amortization	15	131	2,265	2,039	0	4,450
Loss on disposition of assets	0	0	47	0	0	47
<b>Total operating expenses</b>	<b>9,872</b>	<b>144</b>	<b>15,878</b>	<b>13,405</b>	<b>(1,837)</b>	<b>37,462</b>
Other expenses from managed properties	0	0	1,123	0	0	1,123
Other expenses from managed properties affiliates	0	0	1,129	0	0	1,129
<b>Total expenses</b>	<b>9,872</b>	<b>144</b>	<b>18,130</b>	<b>13,405</b>	<b>(1,837)</b>	<b>39,714</b>
Net operating (loss) income	(9,842)	(144)	(74)	1,449	0	(8,611)
Investment income affiliates	0	0	0	83	0	83
Interest income	21	4	0	(1)	0	24
Interest expense	(595)	(2,500)	0	(1,264)	0	(4,359)
Equity in unconsolidated affiliates	(1,849)	791	0	461	1,058	461
(Loss) income from continuing operations before income taxes	(12,265)	(1,849)	(74)	728	1,058	(12,402)
Income tax (expense) benefit	(18)	0	(14)	135	0	103
<b>Net (loss) income from continuing operations</b>	<b>(12,283)</b>	<b>(1,849)</b>	<b>(88)</b>	<b>863</b>	<b>1,058</b>	<b>(12,299)</b>
Discontinued operations, net of tax	0	0	0	13	0	13
<b>Net (loss) income</b>	<b>(12,283)</b>	<b>(1,849)</b>	<b>(88)</b>	<b>876</b>	<b>1,058</b>	<b>(12,286)</b>

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Net income attributable to noncontrolling interest, net of tax	0	0	0	3	0	3
Net (loss) income attributable to Great Wolf Resorts, Inc.	\$ (12,283)	\$ (1,849)	\$ (88)	\$ 879	\$ 1,058	\$ (12,283)

**Table of Contents****UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Six months ended June 30, 2013

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Revenues:</b>						
Rooms	\$ 0	\$ 0	\$ 47,544	\$ 47,552	\$ 0	\$ 95,096
Food and beverage	0	0	12,569	12,434	0	25,003
Other	0	0	11,428	13,097	0	24,525
Management and other fees	271	0	7,346	10	(5,713)	1,914
Management and other fees affiliates	0	0	2,077	0	0	2,077
<b>Total operating revenues</b>	<b>271</b>	<b>0</b>	<b>80,964</b>	<b>73,093</b>	<b>(5,713)</b>	<b>148,615</b>
Other revenue from managed properties	0	0	6,391	0	0	6,391
Other revenue from managed properties affiliates	0	0	5,927	0	0	5,927
<b>Total revenues</b>	<b>271</b>	<b>0</b>	<b>93,282</b>	<b>73,093</b>	<b>(5,713)</b>	<b>160,933</b>
<b>Operating expenses by department:</b>						
Rooms	0	0	6,879	7,630	(955)	13,554
Food and beverage	0	0	9,613	8,746	0	18,359
Other	0	0	9,123	10,862	0	19,985
<b>Other operating expenses:</b>						
Selling, general and administrative	3,087	679	21,833	16,651	(4,758)	37,492
Property operating costs	0	0	8,301	9,788	0	18,089
Depreciation and amortization	0	0	11,546	10,790	0	22,336
Loss on disposition of assets	0	0	0	170	0	170
<b>Total operating revenues</b>	<b>3,087</b>	<b>679</b>	<b>67,295</b>	<b>64,637</b>	<b>(5,713)</b>	<b>129,985</b>
Other expenses from managed properties	0	0	6,391	0	0	6,391
Other expenses from managed properties affiliates	0	0	5,927	0	0	5,927
<b>Total expenses</b>	<b>3,087</b>	<b>679</b>	<b>79,613</b>	<b>64,637</b>	<b>(5,713)</b>	<b>142,303</b>
Net operating (loss) income	(2,816)	(679)	13,669	8,456	0	18,630
Investment income affiliates	0	0	0	648	0	648
Interest income	91	8	15	5	0	119
Interest expense	(3,039)	(9,712)	0	(6,612)	0	(19,363)
Equity in unconsolidated affiliates	3,885	14,268	0	(1,504)	(18,153)	(1,504)
(Loss) income from continuing operations before income taxes	(1,879)	3,885	13,684	993	(18,153)	(1,470)
Income tax benefit (expense)	669	0	(159)	(250)	0	260
<b>Net (loss) income attributable to Great Wolf Resorts, Inc.</b>	<b>\$ (1,210)</b>	<b>\$ 3,885</b>	<b>\$ 13,525</b>	<b>\$ 743</b>	<b>\$ (18,153)</b>	<b>\$ (1,210)</b>





**Table of Contents****UNAUDITED CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS**

Period January 1, 2012 through May 4, 2012

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Revenues:</b>						
Rooms	\$ 0	\$ 0	\$ 30,243	\$ 33,550	\$ 0	\$ 63,793
Food and beverage	0	0	8,399	8,874	0	17,273
Other	0	0	7,206	8,714	0	15,920
Management and other fees	191	0	8,872	7	(7,672)	1,398
Management and other fees affiliates	0	0	1,414	0	0	1,414
<b>Total operating revenues</b>	<b>191</b>	<b>0</b>	<b>56,134</b>	<b>51,145</b>	<b>(7,672)</b>	<b>99,798</b>
Other revenue from managed properties	0	0	4,193	0	0	4,193
Other revenue from managed properties affiliates	0	0	3,901	0	0	3,901
<b>Total revenues</b>	<b>191</b>	<b>0</b>	<b>64,228</b>	<b>51,145</b>	<b>(7,672)</b>	<b>107,892</b>
<b>Operating expenses by department:</b>						
Rooms	0	0	5,325	5,412	(1,279)	9,458
Food and beverage	0	0	6,466	6,480	0	12,946
Other	0	0	5,908	7,542	0	13,450
<b>Other operating expenses:</b>						
Selling, general and administrative	15,470	59	20,803	12,266	(6,393)	42,205
Property operating costs	0	0	5,266	6,081	0	11,347
Depreciation and amortization	53	480	8,391	7,545	0	16,469
Loss on disposition of assets	0	0	47	0	0	47
<b>Total operating expenses</b>	<b>15,523</b>	<b>539</b>	<b>52,206</b>	<b>45,326</b>	<b>(7,672)</b>	<b>105,922</b>
Other expenses from managed properties	0	0	4,193	0	0	4,193
Other expenses from managed properties affiliates	0	0	3,901	0	0	3,901
<b>Total expenses</b>	<b>15,523</b>	<b>539</b>	<b>60,300</b>	<b>45,326</b>	<b>(7,672)</b>	<b>114,016</b>
Net operating (loss) income	(15,332)	(539)	3,928	5,819	0	(6,124)
Investment income affiliates	0	0	0	303	0	303
Interest income	74	7	0	1	0	82
Interest expense	(2,179)	(9,136)	0	(4,701)	0	(16,016)
Equity in unconsolidated affiliates	(3,978)	5,690	0	558	(1,712)	558
(Loss) income from continuing operations before income taxes	(21,415)	(3,978)	3,928	1,980	(1,712)	(21,197)
Income tax expense	(66)	0	(141)	(69)	0	(276)
<b>Net (loss) income from continuing operations</b>	<b>(21,481)</b>	<b>(3,978)</b>	<b>3,787</b>	<b>1,911</b>	<b>(1,712)</b>	<b>(21,473)</b>
Discontinued operations, net of tax	0	0	0	(23)	0	(23)
<b>Net (loss) income</b>	<b>(21,481)</b>	<b>(3,978)</b>	<b>3,787</b>	<b>1,888</b>	<b>(1,712)</b>	<b>(21,496)</b>

Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Net income attributable to noncontrolling interest, net of tax	0	0	0	15	0	15
Net (loss) income attributable to Great Wolf Resorts, Inc.	\$ (21,481)	\$ (3,978)	\$ 3,787	\$ 1,903	\$ (1,712)	\$ (21,481)

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

Six months ended June 30, 2013

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Operating activities:</b>						
Net (loss) income	\$ (1,210)	\$ 3,885	\$ 13,525	\$ 743	\$ (18,153)	\$ (1,210)
Adjustment to reconcile net (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	0	0	11,546	10,790	0	22,336
Bad debt expense	0	0	7	35	0	42
Amortization of debt fair value	180	(2,838)	0	189	0	(2,469)
Non-cash share-based compensation expense	0	0	508	0	0	508
Loss on disposition of assets	0	0	0	170	0	170
Equity in unconsolidated affiliates	(3,885)	(14,268)	0	1,504	18,153	1,504
Deferred tax benefit	(101)	0	0	0	0	(101)
Changes in operating assets and liabilities	(2,799)	(1,521)	5,458	661	822	2,621
Net cash (used in) provided by operating activities	(7,815)	(14,742)	31,044	14,092	822	23,401
<b>Investing activities:</b>						
Capital expenditures for property and equipment	(4)	0	(4,747)	(6,590)	0	(11,341)
Investment in unconsolidated related party	0	0	0	(6,712)	0	(6,712)
Investment in development	0	0	(2,775)	0	0	(2,775)
Proceeds from sale of assets	0	0	11	4	0	15
Increase in restricted cash	0	0	(705)	674	0	(31)
Net cash used in investing activities	(4)	0	(8,216)	(12,624)	0	(20,844)
<b>Financing activities:</b>						
Principal payments on debt	0	0	0	(3,331)	0	(3,331)
Payment of loan costs	(8)	(271)	0	(17)	0	(296)
Repurchase of stock for restricted stock tax withholding	(128)	0	0	0	0	(128)
Advances from (to) consolidating entities, net	7,101	18,671	(22,729)	(2,221)	(822)	0
Net cash provided by (used in) financing activities	6,965	18,400	(22,729)	(5,569)	(822)	(3,755)
Net (decrease) increase in cash and cash equivalents	(854)	3,658	99	(4,101)	0	(1,198)
Cash and cash equivalents, beginning of period	10,188	7,524	1,260	9,152	0	28,124
Cash and cash equivalents, end of period	\$ 9,334	\$ 11,182	\$ 1,359	\$ 5,051	\$ 0	\$ 26,926



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

Period May 5, 2012 through June 30, 2012

Successor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Operating activities:</b>						
Net (loss) income	\$ (5,262)	\$ (3,009)	\$ 2,341	\$ (2,332)	\$ 2,989	\$ (5,273)
Adjustment to reconcile net (loss) income to net cash provided by (used in) operating activities:						
Depreciation and amortization	0	0	3,827	3,952	0	7,779
Bad debt expense	0	0	7	2	0	9
Amortization of debt fair value	(58)	(889)	0	60	0	(887)
Non-cash share-based compensation expense	0	0	868	0	0	868
Equity in unconsolidated affiliates	3,009	(20)	0	423	(2,989)	423
Deferred tax expense	36	0	0	0	0	36
Changes in operating assets and liabilities	62,535	137,928	(64,230)	(138,243)	0	(2,010)
Net cash provided by (used in) operating activities	60,260	134,010	(57,187)	(136,138)	0	945
<b>Investing activities:</b>						
Capital expenditures for property and equipment	0	0	(1,332)	(1,932)	0	(3,264)
Investment in development	0	0	(14)	0	0	(14)
Increase in restricted cash	0	0	0	(1,279)	0	(1,279)
Net cash used in investing activities	0	0	(1,346)	(3,211)	0	(4,557)
<b>Financing activities:</b>						
Principal payments on debt	0	0	0	(392)	0	(392)
Payment of loan costs	(4)	0	0	0	0	(4)
Member contributions	1,091	0	0	0	0	1,091
Advances (to) from consolidating entities, net	(73,551)	(131,166)	62,268	142,449	0	0
Net cash (used in) provided by financing activities	(72,464)	(131,166)	62,268	142,057	0	695
Net (decrease) increase in cash and cash equivalents	(12,204)	2,844	3,735	2,708	0	(2,917)
Cash and cash equivalents, beginning of period	23,340	3,909	(3,941)	4,467	0	27,775
Cash and cash equivalents, end of period	\$ 11,136	\$ 6,753	\$ (206)	\$ 7,175	\$ 0	\$ 24,858

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

Period January 1, 2012 through May 4, 2012

Predecessor

(Dollars in thousands)

	Parent	Issuers	Subsidiary Guarantors	Non Guarantor Subsidiaries	Consolidating Adjustments	Consolidated
<b>Operating activities:</b>						
Net (loss) income	\$ (21,481)	\$ (3,978)	\$ 3,787	\$ 1,888	\$ (1,712)	\$ (21,496)
Adjustment to reconcile net (loss) income to net cash (used in) provided by operating activities:						
Depreciation and amortization	53	480	8,391	7,545	0	16,469
Bad debt expense	0	0	1	25	0	26
Non-cash share-based compensation expense	0	0	3,348	0	0	3,348
Loss on disposition of assets	0	0	47	0	0	47
Equity in unconsolidated affiliates	3,978	(5,690)	0	(558)	1,712	(558)
Deferred tax expense	73	0	0	0	0	73
Changes in operating assets and liabilities	14,315	(3,747)	(3,218)	(3,581)	0	3,769
Net cash (used in) provided by operating activities	(3,062)	(12,935)	12,356	5,319	0	1,678
<b>Investing activities:</b>						
Capital expenditures for property and equipment	0	0	(1,248)	(989)	0	(2,237)
Investment in development	0	0	(75)	0	0	(75)
Proceeds from sale of assets	0	0	3	0	0	3
Increase in restricted cash	0	0	0	(3,464)	0	(3,464)
Net cash used in investing activities	0	0	(1,320)	(4,453)	0	(5,773)
<b>Financing activities:</b>						
Principal payments on debt	0	527	(14)	(2,290)	0	(1,777)
Payment of loan costs	3	(121)	0	(2)	0	(120)
Advances from (to) consolidating entities, net	16,360	458	(15,777)	(1,041)	0	0
Net cash provided by (used in) financing activities	16,363	864	(15,791)	(3,333)	0	(1,897)
Net increase (decrease) in cash and cash equivalents						
	13,301	(12,071)	(4,755)	(2,467)	0	(5,992)
Cash and cash equivalents, beginning of period	10,039	15,980	814	6,934	0	33,767
Cash and cash equivalents, end of period	\$ 23,340	\$ 3,909	\$ (3,941)	\$ 4,467	\$ 0	\$ 27,775

**Table of Contents**

**11. SUBSEQUENT EVENTS**

*Debt Refinancing* On August 9, 2013, we filed a Current Report on Form 8-K with the SEC announcing that we have entered into a credit agreement (the Credit Agreement ) governing the senior secured credit facilities, consisting of a \$320.0 million term loan B facility which matures on August 6, 2020 and a \$100.0 million revolving credit facility which matures on August 6, 2018, with a syndicate of lenders and Deutsche Bank AG New York Branch, as administrative agent, collateral agent, swingline lender and L/C issuer.

The net proceeds received by GWRI from the senior secured credit facilities under the Credit Agreement, together with other cash available to GWRI, were used to, among other things, repay the credit facility of Great Wolf Lodge of the Carolinas, LLC, a subsidiary of GWRI, under a credit agreement, dated as of July 15, 2011 and as subsequently amended, among Great Wolf Lodge of the Carolinas, LLC, the lenders from time to time party thereto, and Cr dit Agricole Corporate and Investment Bank, as agent.

Concurrently, GWR Operating Partnership, L.L.L.P. and Great Wolf Finance Corp. (together, the Issuers ) provided notice to U.S. Bank National Association, as trustee (in such capacity, the Trustee ) and collateral agent (in such capacity, the Collateral Agent ), pursuant to the Indenture, dated as of April 7, 2010 (as supplemented by the First Supplemental Indenture, dated as of May 28, 2010, and the Second Supplemental Indenture, dated as of April 30, 2012) by and among the Issuers, the guarantors party thereto, the Trustee and the Collateral Agent (the Indenture ), that the Issuers had elected to redeem all of their outstanding 10.875% First Mortgage Notes due 2017 issued under the Indenture (the Notes ), at a redemption price of 100% plus a make-whole premium, plus accrued and unpaid interest, on September 5, 2013 (the Full Redemption ). On August 6, 2013, the Issuers, the Trustee and the Collateral Agent entered into a Satisfaction and Discharge Agreement whereby the Issuers caused to be irrevocably deposited with the Trustee, to satisfy and to discharge the Issuers' obligations under the Indenture, proceeds from the Credit Agreement in an amount sufficient to effect the Full Redemption on September 5, 2013.

*Interest Rate Cap Settlement* On August 8, 2013, in connection with the repayment of the credit facility of Great Wolf Lodge of the Carolinas, LLC, described above, the Company settled the interest rate caps described in Note 7.

*Purchase of Property for Development* On August 13, 2013, Great Wolf Lodge of New England, LLC, a wholly owned indirect subsidiary of GWR Operating Partnership, L.L.L.P. completed the acquisition of a 245-room hotel, conference center and waterpark in Fitchburg, Massachusetts for a purchase price of approximately \$14.0 million. We intend to refurbish the property and reopen it as a Great Wolf Lodge in 2014.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) is a discussion and analysis of the financial condition, results of operations and liquidity and capital resources. The following MD&A should be read in conjunction with the condensed consolidated financial statements and notes thereto appearing elsewhere in this report and the audited financial statements and other disclosures included in our Annual Report on Form 10-K for the year ended December 31, 2012. This MD&A contains forward-looking statements that involve risks and uncertainties. Our actual results may differ from those indicated in the forward-looking statements. See Forward-Looking Statements included elsewhere in this report.*

*All dollar amounts in this discussion, except for operating statistics, are in thousands.*

**Overview**

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

*Business.* We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to, destination family resorts featuring indoor waterparks and other family-oriented entertainment activities. Each of our resorts features approximately 300 to 600 family suites, each of which sleeps from six to ten people and includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 12 years old that live within a convenient driving distance of our resorts. Our resorts are open year-round and provide a consistent, comfortable environment where our guests can enjoy our various amenities and activities. We operate and license resorts under our Great Wolf Lodge brand name. We have entered into licensing and management arrangements with third parties relating to the operation of resorts under the Great Wolf Lodge brand name.

Our financial information includes:

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

our wholly-owned resorts;

our Creative Kingdoms, LLC ( Creative Kingdoms ) subsidiary, which is a developer of experiential gaming products; and

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

On May 4, 2012, the Company merged (the Merger ) with K-9 Acquisition, Inc., a Delaware corporation ( Merger Sub ) and subsidiary of a fund managed by an affiliate of Apollo Global Management, LLC (together with its subsidiaries, Apollo ). Although the Company continued as the same legal entity after the Merger, the Company's capital structure changed significantly as a result of the Merger and our financial statement presentations distinguish between a Predecessor for periods prior to the Merger and a Successor for periods subsequent to the Merger. As a result of the application of the acquisition method of accounting as of the effective time of the Merger, the financial statements for the Predecessor period and for the Successor period are presented on different bases and are, therefore, not comparable.

*Properties.* The following table presents an overview of our portfolio of resorts. As of June 30, 2013, we operated, managed and/or had licensing arrangements relating to the operation of 11 Great Wolf Lodge resorts. We anticipate that most of our future resorts will be licensed and/or developed under our Great Wolf Lodge brand.

Ownership Percentage	Opened	Number of Guest Suites	Indoor Entertainment Area (1)
-------------------------	--------	---------------------------	-------------------------------------



Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

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

---

**Table of Contents**

- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room, MagiQuest® (an interactive game attraction) and fitness room, as well as our spa in the resorts that have such amenities.
- (2) Total number of guest suites includes 77 condominium units that are individually owned and we manage.
- (3) These properties are owned by CNL Lifestyle Properties, Inc. ( CNL ), a real estate investment trust focused on leisure and lifestyle properties. We currently manage both properties and license the Great Wolf Lodge brand to these resorts.
- (4) Five of our properties (Great Wolf Lodge resorts in Williamsburg, VA; Pocono Mountains, PA; Mason, OH; Grapevine, TX and Concord, NC) each had a book value of fixed assets equal to ten percent or more of our total assets as of June 30, 2013 and each of those five properties had total revenues equal to ten percent or more of our total revenues for the three and six months ended June 30, 2013.
- (5) An affiliate of Ripley Entertainment Inc. ( Ripley ), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016 for a licensing fee.
- (6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation ( Chehalis ) owns a 51% interest in the joint venture, and we own a 49% interest. We manage the property and license the Great Wolf Lodge brand to the joint venture under long-term agreements through April 2057, subject to earlier termination in certain situations. The joint venture leases the land for the resort from the United States Department of the Interior, which is trustee for Chehalis.

**Key Performance Indicators**

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

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies and is calculated by dividing total occupied rooms by total available rooms;

Average daily room rate ( ADR ) allows us to measure the effectiveness of our yield management strategies and is calculated by dividing total rooms revenue by total occupied rooms;

Revenue per available room ( RevPAR ) is the product of occupancy and ADR;

Total revenue per occupied room ( Total RevPOR ) calculated by dividing total revenue by total occupied rooms;

Total revenue per available room ( Total RevPAR ) calculated by dividing total revenue by total available rooms;

Non-rooms revenue per occupied room calculated by taking the difference between Total RevPOR and ADR;

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

EBITDA adjusted for certain items, or Adjusted EBITDA.

Occupancy, ADR and RevPAR are commonly used measures within the hospitality industry to evaluate hotel operations. 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. For the six months ended June 30, 2013, approximately 67% of our total consolidated resort revenues consisted of rooms revenue (which includes admission to the waterpark).

See Non-GAAP Financial Measures for further discussion of our use of EBITDA and Adjusted EBITDA and a reconciliation of net loss to EBITDA and Adjusted EBITDA.

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

The following tables show key operating statistics for our resorts for the three months ended June 30, 2013 and 2012:

	Three months ended June 30,		Increase / (Decrease)	
	Successor 2013	Successor/ Predecessor 2012		
Occupancy	67.3%	67.4%	N/A	(0.1%)
ADR	\$ 258.82	\$ 254.98	\$ 3.84	1.5%
RevPAR	\$ 174.29	\$ 171.85	\$ 2.44	1.4%
Total RevPOR	\$ 393.82	\$ 388.92	\$ 4.90	1.3%
Total RevPAR	\$ 265.20	\$ 262.12	\$ 3.08	1.2%
Non-rooms revenue per occupied room	\$ 135.00	\$ 133.94	\$ 1.06	0.8%
Adjusted EBITDA	\$ 22,561	\$ 22,421	\$ 140	0.6%

**Table of Contents**

The following tables show key operating statistics for our resorts for the six months ended June 30, 2013 and 2012:

	Six months ended June 30,		Increase	
	Successor 2013	Successor/ Predecessor 2012	\$	%
Occupancy	67.0%	66.4%	N/A	0.6%
ADR	\$ 271.06	\$ 260.14	\$ 10.92	4.2%
RevPAR	\$ 181.58	\$ 172.66	\$ 8.92	5.2%
Total RevPOR	\$ 412.42	\$ 398.44	\$ 13.98	3.5%
Total RevPAR	\$ 276.28	\$ 264.45	\$ 11.83	4.5%
Non-rooms revenue per occupied room	\$ 141.36	\$ 138.30	\$ 3.06	2.2%
Adjusted EBITDA	\$ 49,258	\$ 44,760	\$ 4,498	10.0%

**Results of Operations***Three months ended June 30, 2013 compared with the three months ended June 30, 2012*

Presented below are selected amounts from the statements of income for the three months ended June 30, 2013 and 2012:

	Three months ended June 30,		Increase /	
	Successor 2013	Successor / Predecessor 2012	(Decrease) \$	%
Total operating revenues	\$ 72,543	\$ 73,308	\$ (765)	(1.0%)
Operating expenses:				
Departmental operating expenses	25,724	26,664	(940)	(3.5%)
Selling, general and administrative	18,502	33,002	(14,500)	(43.9%)
Property operating costs	9,114	8,485	629	7.4%
Depreciation and amortization	10,461	12,229	(1,768)	(14.5%)
Net operating income (loss)	8,674	(7,119)	15,793	n.m.
Interest expense, net of interest income	(9,609)	(10,563)	(954)	(9.0%)
Equity in unconsolidated affiliates	(262)	38	(300)	n.m.
Net loss attributable to Great Wolf Resorts, Inc.	\$ (364)	\$ (17,545)	\$ 17,181	97.9%

*Total Operating Revenues.* Operating revenues consist of lodging revenue, which includes rooms, food and beverage, and other department revenues from our resorts; management fees and other revenue from resorts, which includes fees received under our management, license, development and construction management agreements; and revenue from our Creative Kingdoms subsidiary, which includes product sales, admission fees and retail revenues. Total operating revenues for the three months ended June 30, 2013 decreased slightly due to lower occupancy as a result of spring break primarily occurring in the first quarter of 2013 as compared to primarily occurring in second quarter of 2012.

*Operating expenses.*

Departmental operating expenses consist of room, food and beverage and other department expenses. For the three months ended June 30, 2013, these expenses decreased by \$940, as compared to the three months ended June 30, 2012, primarily due to cost saving measures across all departments.

Selling, general and administrative expenses, which are associated with the operations and management of resorts, our Creative Kingdoms subsidiary, corporate payroll and related benefits, operations management, sales and marketing, finance, legal,

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

information technology support, human resources and other support services, as well as general corporate. These expenses decreased by \$14,500 for the three months ended June 30, 2013, as compared to the three months ended June 30, 2012, due primarily to a decrease of \$11,901 in merger-related expenses and a decrease of \$3,214 in non-cash share-based compensation expenses as well as cost saving measures across all departments, partially offset by \$1,000 of increased marketing expenses.

Property operating costs consists of expenses, such as repairs and maintenance, utility costs and property taxes. For the three months ended June 30, 2013, property operating costs increased \$629 primarily due to an increase of \$767 in property taxes as a result of a 2011 real estate tax refund received in 2012, partially offset by savings in repairs and maintenance.

Total depreciation and amortization decreased for the three months ended June 30, 2013 compared to the three months ended June 30, 2012, primarily as a result of merger-related fair value and useful life adjustments made in 2012.

**Table of Contents**

*Net operating income (loss).* For the three months ended June 30, 2013, we had net operating income of \$8,674 compared to net operating loss of \$7,119 for the three months ended June 30, 2012.

*Net loss attributable to Great Wolf Resorts, Inc.* Net loss attributable to Great Wolf Resorts, Inc. was \$364 for the three months ended June 30, 2013 compared to a net loss of \$17,545 for the three months ended June 30, 2012, an increase of \$17,181 primarily due to increased operating income of \$15,793 and decreased interest expense, net of interest income, of \$954 due to the debt amortization of the fair value adjustments recorded at the time of the Merger, offset by a decrease in equity in unconsolidated affiliates of \$300.

**Six months ended June 30, 2013 compared with the six months ended June 30, 2012**

Presented below are selected amounts from the statements of income for the six months ended June 30, 2013 and 2012:

	<b>Six months ended June 30,</b>		<b>Increase /</b>	
	<b>Successor 2013</b>	<b>Successor / Predecessor 2012</b>	<b>(Decrease)</b>	<b>%</b>
Total operating revenues	\$ 148,615	\$ 144,255	\$ 4,360	3.0%
Operating expenses:				
Departmental operating expenses	51,898	52,790	(892)	(1.7%)
Selling, general and administrative	37,492	55,581	(18,089)	(32.5%)
Property operating costs	18,089	16,221	1,868	11.5%
Depreciation and amortization	22,336	24,248	(1,912)	(7.9%)
Net operating income (loss)	18,630	(4,632)	23,262	n.m.
Interest expense, net of interest income	(19,244)	(22,162)	(2,918)	(13.2%)
Equity in unconsolidated affiliates	(1,504)	135	(1,639)	n.m.
Net loss attributable to Great Wolf Resorts, Inc.	\$ (1,210)	\$ (26,743)	\$ 25,533	95.5%

*Total Operating Revenues.* Operating revenues consist of lodging revenue, which includes rooms, food and beverage, and other department revenues from our resorts; management fees and other revenue from resorts, which includes fees received under our management, license, development and construction management agreements; and revenue from our Creative Kingdoms subsidiary, which includes product sales, admission fees and retail revenue. Total operating revenues for the six months ended June 30, 2013 increased primarily due to the increase in ADR.

*Operating expenses.*

Departmental operating expenses consist of room, food and beverage and other department expenses. For the six months ended June 30, 2013, these expenses decreased by \$892, as compared to the six months ended June 30, 2012, primarily due to a decrease in labor costs due to cost saving measures and a decrease in costs of sales.

Selling, general and administrative expenses, which are associated with the operations and management of resorts, our Creative Kingdoms subsidiary, 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. These expenses decreased by \$18,089 for the six months ended June 30, 2013, as compared to the six months ended June 30, 2012, due primarily to a decrease of \$17,707 in merger-related expenses and a decrease of \$3,708 in non-cash share-based compensation expenses, partially offset by an increase of \$2,675 in consulting fees and an increase of \$2,260 in separation payments.

Property operating costs consists of expenses, such as repairs and maintenance, utility costs and property taxes. For the six months ended June 30, 2013, property operating costs increased \$1,868 primarily due to an increase of \$1,431 in property taxes as a result of a 2011 real estate tax refund received in 2012.

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Total depreciation and amortization decreased for the six months ended June 30, 2013 compared to the six months ended June 30, 2012, primarily as a result of merger-related fair value and useful life adjustments made in 2012.

*Net operating income (loss).* For the six months ended June 30, 2013, we had net operating income of \$18,630 compared to net operating loss of \$4,632 for the six months ended June 30, 2012.

*Net loss attributable to Great Wolf Resorts, Inc.* Net loss attributable to Great Wolf Resorts, Inc. was \$1,210 for the six months ended June 30, 2013 compared to a net loss of \$26,743 for the six months ended June 30, 2012, an increase of \$25,533 primarily due

**Table of Contents**

to increased operating income of \$23,262 and decreased interest expense, net of interest income, of \$2,918 due to the debt amortization of the fair value adjustments recorded at the time of the Merger, offset by a decrease in equity in unconsolidated affiliates of \$1,639.

**Segments**

We have two reportable segments. Refer to Note 9 to the unaudited condensed consolidated financial statements of the Company for a detailed discussion of our segments.

	Three months ended June 30,			Six months ended June 30,		
	Successor 2013	Successor/ Predecessor 2012	Increase/ (Decrease)	Successor 2013	Successor/ Predecessor 2012	Increase/ (Decrease)
<b>Revenues</b>						
Resort Ownership Operation	\$ 69,544	\$ 69,821	\$ (277)	\$ 142,866	\$ 138,540	\$ 4,326
Resort Third-Party Management/License	8,156	8,016	140	16,309	15,528	781
Other	1,062	1,330	(268)	1,758	1,888	(130)

**Liquidity and Capital Resources**

Refer to Note 5 and Note 11 to the unaudited condensed consolidated financial statements of the Company for a detailed discussion of our indebtedness.

**Short-Term Liquidity Requirements**

Our short-term liquidity requirements generally consist primarily of funds necessary to pay operating expenses for the next 12 months, including: recurring maintenance, repairs and other operating expenses necessary to properly maintain and operate our resorts; recurring capital expenditures we make at our resorts; debt maturities within the next year, potentially including a portion of debt maturities of our unconsolidated subsidiary; property taxes and insurance expenses; interest expense and scheduled principal payments on outstanding indebtedness; general and administrative expenses; and income taxes.

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

**Long-Term Liquidity Requirements**

Our long-term liquidity requirements generally consist primarily of funds necessary to pay for the following items for periods beyond the next 12 months: scheduled debt maturities potentially including a portion of debt maturities of our unconsolidated subsidiary; costs associated with the development of new resorts; renovations, expansions and other non-recurring capital expenditures that need to be made periodically to our resorts; and capital contributions and loans to unconsolidated joint ventures.

We expect to meet these needs through a combination of existing working capital, cash provided by operations, proceeds from investing activities; and proceeds from financing activities, including mortgage financing on properties being developed, additional or replacement borrowings under future credit facilities, contributions from joint venture partners, and the issuance of equity instruments, including common stock, or additional or replacement debt, including debt securities, as market conditions permit.

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

Other than debt maturities, our largest long-term expenditures are expected to be for capital expenditures for our existing resorts, capital expenditures for development of future resorts, and capital contributions or loans to existing joint ventures or joint ventures owning resorts under construction or development. Capital expenditures for our existing resorts were \$11,341 for the six months ended June 30, 2013, \$5,501 for the six months ended June 30, 2012 and \$10,571 for the year ended December 31, 2012. Capital expenditures increased in the six months ended June 30, 2013 compared to the six months ended June 30, 2012 due to increased focus on new revenue generating projects in preparation for the



busy summer months.

For a description of the refinancing of certain of our debt that occurred after June 30, 2013, see the information provided under Note 11 to the unaudited condensed consolidated financial statements of the Company.

**Table of Contents****Working Capital**

We had \$29,926 of available cash and cash equivalents and a working capital deficit of \$66,201 (current assets less current liabilities) at June 30, 2013, compared to the \$28,124 of available cash and cash equivalents and a working capital deficit of \$62,100 at December 31, 2012. The primary reason for the working capital deficit as of June 30, 2013 and December 31, 2012 is the classification of our Traverse City/Kansas City mortgage loan (principal balance of \$62,914 as of June 30, 2013 and \$63,845 as of December 31, 2012) as a current liability due to the lender's implementation of the traditional lock-box arrangement for the two properties. Although the entire principal balance of the loan is classified as a current liability as of June 30, 2013 and December 31, 2012, the loan is not in default, and the principal balance is not currently due.

**Cash Flows****Comparison of the six months ended June 30, 2013 to the six months ended June 30, 2012**

	<b>Six months ended June 30,</b>		
	<b>Successor</b>	<b>Successor/ Predecessor</b>	
	<b>2013</b>	<b>2012</b>	<b>Increase</b>
Net cash provided by operating activities	\$ 23,401	\$ 2,623	\$ 20,778
Net cash used in investing activities	(20,844)	(10,330)	10,514
Net cash used in financing activities	(3,755)	(1,202)	2,553

*Operating Activities.* The increase in net cash provided by operating activities of \$20,778 is primarily due to a change in net loss of \$25,559 offset by a decrease in non-cash share-based compensation expense of \$3,708 for the six months ended June 30, 2013 as compared to the six months ended June 30, 2012.

*Investing Activities.* The increase in net cash used in investing activities of \$10,514 is primarily due to increased capital expenditures of \$5,840 and increased investments in development of \$2,686 for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 as well as an investment in our unconsolidated related party of \$6,712 offset by decreased change in restricted cash and escrows of \$4,712 compared to the six months ended June 30, 2012. Refer to Note 4 to the unaudited condensed consolidated financial statements for a detailed discussion of the investment in our unconsolidated affiliates.

*Financing Activities.* The increase in net cash used in financing activities of \$2,553 is primarily due to increased principal payments on our mortgage debt for the six months ended June 30, 2013 compared to the six months ended June 30, 2012 as well as a capital contribution made in the first six months of 2012 which did not recur in the first six months of 2013.

**Non-GAAP Financial Measures**

We use EBITDA and Adjusted EBITDA as measures of the operating performance. EBITDA and Adjusted EBITDA are supplemental financial measures and are not defined by accounting principles generally accepted in the United States ( GAAP ).

EBITDA is commonly defined as net income (loss) plus (a) net interest expense from continuing operations and discontinued operations, (b) income taxes from continuing operations and discontinued operations, and (c) depreciation and amortization from continuing operations and discontinued operations.

We define Adjusted EBITDA as EBITDA further adjusted to exclude unusual items and other adjustments described below.

Our management uses EBITDA and Adjusted EBITDA to evaluate operating performance and our capacity to incur and service debt, fund capital expenditures and expand our business; to evaluate our performance relative to our peers; as a basis for compensation for certain members of our management; for planning purposes; and in determining the value of proposed acquisitions and dispositions. We believe these are important supplemental measures of operating performance because they remove items that have less bearing on our operating performance and so highlight trends in our core business that may not otherwise be apparent when relying solely on GAAP financial measures. In addition, our presentation of Adjusted EBITDA is consistent with the equivalent measurements that are contained in our new credit facility in testing our compliance with covenants therein such as the senior secured leverage ratio. For a discussion of our new credit facility, see the information provided under Note 11 to the unaudited condensed consolidated financial statements of the Company.

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

We believe the presentation of these non-GAAP measures is relevant and useful for investors because it enables them to view performance in a manner similar to the method used by our management; helps improve their ability to understand our operating performance; and make it easier to compare our results with other companies that may have different capital structures, capital investment cycles, ages of related assets, depreciation and amortization policies, interest rates or debt levels or income tax rates. In addition, these measures are commonly used in our industry to enhance investors' understanding of our operating performance and to measure our ability to incur and service debt, make capital expenditures and meet working capital requirements.

**Table of Contents**

Using these non-GAAP measures have material limitations, including the following:

they do not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments;

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

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

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

they do not reflect limitations on our costs related to transferring earnings from our subsidiaries to us; and

other companies in our industry may calculate similarly titled measures differently than we do, limiting their usefulness as comparative measures.

These non-GAAP measures should not be considered as an alternative to net income (loss), as indicators of our operating performance, as alternatives to any other measure of performance in conformity with GAAP or as alternatives to cash flow provided by operating activities as a measure of liquidity. You should therefore not place undue reliance on these measures. We believe these non-GAAP measures are most directly comparable to GAAP measurements such as operating income (loss), net income (loss), cash flows from operations and cash flow data.

The following table reconciles net loss attributable to Great Wolf Resorts, Inc. to EBITDA and Adjusted EBITDA for the periods presented.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	Successor	Successor/ Predecessor	Successor	Successor/ Predecessor
Net loss attributable to Great Wolf Resorts, Inc.	\$ (364)	\$ (17,545)	\$ (1,210)	\$ (26,743)
Adjustments:				
Interest expense, net of interest income	9,609	10,563	19,244	22,162
Income tax (benefit) expense	(428)	156	(260)	534
Depreciation and amortization	10,461	12,229	22,336	24,248
EBITDA	19,278	5,403	40,110	20,201
Non-cash share-based compensation	211	3,425	508	4,216
Equity in unconsolidated affiliates	262	(38)	1,504	(135)
Net income attributable to noncontrolling interest		(14)		(27)
Separation payments	182		2,260	
Merger-related costs	144	12,045	(686)	17,021
Consulting fees	1,385		2,675	
Loss on disposition of assets	68	47	170	47
Creative Kingdoms acquisition costs	71		225	
Pro forma cost reduction adjustments (1)	960	1,553	2,492	3,437

## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

Adjusted EBITDA	\$ 22,561	\$ 22,421	\$ 49,258	\$ 44,760
-----------------	-----------	-----------	-----------	-----------

- (1) Represents the pro forma effect of the estimated savings derived from the implementation of cost reduction measures primarily in compensation and benefits from the reduction of certain employees, as well as franchise fees. The pro forma amount related to compensation and benefits was calculated using the amount of actual expenses for certain employees for the 12 month period prior to their elimination. The pro forma amount related to franchise fees was calculated using the amount of actual expenses incurred for certain franchise fees.

## **Table of Contents**

### **Known Trends**

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

### **Critical Accounting Policies and Estimates**

For a discussion of accounting policies and estimates that we consider critical to our business operations and understanding of our results of operations, and that affect the more significant estimates and judgments used in the preparation of these unaudited condensed consolidated financial statements, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Critical Accounting Policies and Estimates contained in our Annual Report on Form 10-K for the year ended December 31, 2012 and incorporated by reference herein. As of June 30, 2013, there were no significant changes in those critical accounting policies and estimates.

### **Recent Accounting Pronouncements**

For a discussion of the recent accounting pronouncements relevant to our business operations, see the information provided under Note 2 to the unaudited condensed consolidated financial statements of the Company.

### **Related Party Transactions**

For a discussion of related party transactions, see the information provided under Note 4 to the unaudited condensed consolidated financial statements of the Company.

### **Off-Balance Sheet Arrangements**

As of June 30, 2013, we have an unconsolidated joint venture arrangement with The Confederated Tribes of the Chehalis Reservation with respect to the Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This joint venture is a limited liability company. We are a member of that limited liability company with a 49% ownership interest. We also have an unconsolidated joint venture agreement with an affiliate of McWhinney Real Estate Services, Inc. with respect to the Great Wolf Lodge resort to be developed in Garden Grove, California. We are a member of that limited liability company with a 15.28% ownership interest. We account for both joint ventures using the equity method of accounting. See Note 2 to the unaudited condensed consolidated financial statements of the Company.

### **Contractual Obligations**

See Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations Contractual Obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2012 and incorporated by reference herein. As of June 30, 2013, there were no significant changes to our contractual obligations. However, for a description of the refinancing of certain of our debt that occurred after June 30, 2013, see the information provided under Note 11 to the unaudited condensed consolidated financial statements of the Company.

### **Inflation**

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

### **Seasonality**

Our revenue and operating results primarily coincide with the timing of school vacation schedules. The actual quarterly results for each quarter could differ materially depending on these factors or other risks and uncertainties. Based on our historical experience, our fourth quarter typically has less revenue than other quarters of a given year due primarily to lower consumer demand for our properties. Depending on the timing of spring break, revenues could shift between the first and second quarters of a given year. Accordingly, there can be no assurances that seasonal variations will not materially affect our results of operations in the future.



**Table of Contents**

The following table reflects the quarterly percentage of total operating revenue for the years ended 2010, 2011 and 2012:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2010	25.0%	24.1%	28.2%	22.7%
2011	24.2%	25.5%	28.2%	22.1%
2012	24.3%	25.2%	27.9%	22.6%

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

The primary market risk to which we are exposed is interest rate risk. Our mortgage debts, with the exception of the Concord mortgage loan, are at fixed rates and therefore are not subject to market risk. We have entered into interest rate caps that limit the Concord mortgage loan to a fixed rate of 8.00% through December 2016. At June 30, 2013, the only interest rate risk that we are exposed to is related to our junior subordinated debentures and thus a 1% or 100 basis point fluctuation in market interest rates would have the effect of increasing or decreasing our interest expense by approximately \$290 (in thousands) annually, based on our debt balances outstanding and current interest rates in effect as of June 30, 2013.

During the six months ended June 30, 2013, there were no other material changes in our market risk exposure. For a complete discussion of our market risk associated with interest rate risk as of June 30, 2013, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2012. For a description of the refinancing of certain of our debt that occurred after June 30, 2013, see the information provided under Note 11.

**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 2013. We have concluded that our disclosure controls and procedures were effective as of June 30, 2013.

**Changes in Internal Control over Financial Reporting**

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

**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

For a discussion of legal proceedings, see the information provided under Note 8 to the unaudited condensed consolidated financial statements of the Company.

**ITEM 1A. RISK FACTORS**



## Edgar Filing: Great Wolf Resorts, Inc. - Form 10-Q

There have been no material changes from the risk factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

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

None.

**Table of Contents****ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

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

**ITEM 4. MINE SAFETY DISCLOSURES**

Not applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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

Exhibit Number	Description
10.1	Credit Agreement, dated August 6, 2013, among Great Wolf Resorts Intermediate Holdings, LLC, Great Wolf Resorts, Inc., the lenders party thereto from time to time, Deutsche Bank AG New York Branch, as administrative agent, collateral agent swingline lender and L/C issuer, Deutsche Bank Securities Inc., Barclays Bank PLC, and Goldman Sachs Bank USA, as joint lead arrangers, Deutsche Bank Securities Inc., Barclays Bank PLC, and Goldman Sachs Bank USA, as joint bookrunners, Barclays Bank PLC and Goldman Sachs Bank USA, as co-syndication agents, and Barclays Bank PLC, and Goldman Sachs Bank USA, as co-documentation agents. (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed August 9, 2013).
10.2	Guarantee Agreement, dated as of August 6, 2013, by and among Great Wolf Resorts Intermediate Holdings, LLC, the subsidiaries of Great Wolf Resorts, Inc. identified on the signature pages thereof and Deutsche Bank AG New York Branch, as administrative agent and collateral agent (incorporated herein by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed August 9, 2013).
10.3	Collateral Agreement, dated as of August 6, 2013, among Great Wolf Resorts Intermediate Holdings, LLC, Great Wolf Resorts, Inc. and each subsidiary of Great Wolf Resorts, Inc. identified therein and Deutsche Bank AG New York Branch, as collateral agent (incorporated herein by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed August 9, 2013).
10.4	Satisfaction and Discharge Agreement, dated August 6, 2013, by and among GWR Operating Partnership, L.L.L.P., Great Wolf Finance Corp. and U.S. Bank National Association, as trustee and collateral agent (incorporated herein by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed August 9, 2013).
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a).
32.1**	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350.
32.2**	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350.
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document.

- \* Filed herewith.
- \*\* Furnished 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/ Gary W. Ferrera  
Gary W. Ferrera  
Chief Financial Officer

(Duly authorized officer)

(Principal Financial and Accounting Officer)

Dated: August 14, 2013