

Great Wolf Resorts, Inc.  
Form 10-Q  
November 06, 2007

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**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 September 30, 2007**

**OR**

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

**Commission File Number 000-51064**

**GREAT WOLF RESORTS, INC.**

**(Exact name of registrant as specified in its charter)**

**Delaware**

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

**51-0510250**

*(I.R.S. Employer Identification No.)*

**122 West Washington Avenue**

**Madison, Wisconsin 53703**

*(Address of principal executive offices)*

**53703**

*(Zip Code)*

**(608) 661-4700**

*(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 30,699,671 as of November 6, 2007.

**Great Wolf Resorts, Inc.**  
**Quarterly Report on Form 10-Q**  
**For the Quarter Ended September 30, 2007**  
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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Dollars in thousands, except per share amounts)**

	<b>September 30, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 21,533	\$ 96,778
Accounts receivable, net of allowance for doubtful accounts of \$141 and \$205	2,388	2,680
Accounts receivable related parties	2,143	2,223
Inventory	3,823	2,825
Other current assets	5,808	4,638
 Total current assets	 35,695	 109,144
Property and equipment, net	583,093	489,968
Investments in and advances to related parties	53,596	25,028
Other assets	31,486	19,450
Other intangible assets	23,829	23,829
Goodwill	17,927	16,020
 Total assets	 \$ 745,626	 \$ 683,439
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Current portion of long-term debt	\$ 1,654	\$ 1,432
Accounts payable	10,433	25,882
Accrued payroll	1,199	2,768
Accrued expenses	12,346	12,740
Accrued expenses related parties	378	443
Advance deposits	7,927	7,165
Gift certificates payable	2,648	3,349
 Total current liabilities	 36,585	 53,779
Mortgage debt	280,737	224,161
Other long-term debt	92,528	63,796
Other long-term liabilities	2,060	391
Deferred tax liability	14,428	15,846
Deferred compensation liability	2,331	2,200
 Total liabilities	 428,669	 360,173

Minority interest		5,757
Commitments and contingencies		
Stockholders' equity:		
Common stock, \$0.01 par value; 250,000,000 shares authorized; 30,700,003 and 30,509,320 shares issued and outstanding, at September 30, 2007, and December 31, 2006, respectively	307	305
Additional paid in capital	398,425	396,909
Preferred stock, \$0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding		
Accumulated deficit	(79,405)	(77,505)
Deferred compensation	(2,200)	(2,200)
Accumulated other comprehensive loss, net of tax	(170)	
Total stockholders' equity	316,957	317,509
Total liabilities and stockholders' equity	\$ 745,626	\$ 683,439

See accompanying notes to condensed consolidated financial statements.

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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
**AND COMPREHENSIVE INCOME (LOSS)**

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

	Three months ended		Nine months ended	
	September 30,		September 30,	
	2007	2006	2007	2006
Revenues:				
Rooms	\$ 30,754	\$ 24,363	\$ 87,659	\$ 68,503
Food and beverage	7,577	5,723	22,621	16,695
Other hotel operations	7,407	5,805	20,990	16,234
Management and other fees	983	888	2,231	1,629
Management and other fees related parties	1,162	853	3,295	2,250
	47,883	37,632	136,796	105,311
Other revenue from managed properties	3,015	3,147	8,852	9,131
Total revenues	50,898	40,779	145,648	114,442
Operating expenses by department:				
Rooms	4,158	3,134	12,147	9,008
Food and beverage	6,273	4,682	19,383	14,037
Other	6,024	4,529	17,615	12,868
Other operating expenses:				
Selling, general and administrative	10,005	9,382	34,582	31,983
Property operating costs	6,553	5,313	20,726	14,888
Depreciation and amortization	9,105	6,430	26,567	18,697
Loss on sale of property	128	375	128	953
	42,246	33,845	131,148	102,434
Other expenses from managed properties	3,015	3,147	8,852	9,131
Total operating expenses	45,261	36,992	140,000	111,565
Net operating income	5,637	3,787	5,648	2,877
Investment income	(281)		(336)	
Interest income	(551)	(863)	(2,365)	(2,315)
Interest expense	3,829	1,817	11,104	5,399
Income/(loss) before income taxes, minority interests, and equity in losses of unconsolidated related parties	2,640	2,833	(2,755)	(207)
Income tax expense (benefit)	784	1,102	(1,157)	(83)
Minority interests, net of tax		(77)	(443)	(114)
Equity in loss (earnings) of unconsolidated related parties, net of tax	95	(280)	745	247

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Net income (loss)	\$	1,761	\$	2,088	\$	(1,900)	\$	(257)
Other comprehensive income (loss), net of tax:								
Unrealized loss on interest rate swaps		(329)				(170)		
Comprehensive income (loss)	\$	1,432	\$	2,088	\$	(2,070)	\$	(257)
Net income (loss) per share-basic	\$	0.06	\$	0.07	\$	(0.06)	\$	(0.01)
Net income (loss) per share-diluted	\$	0.06	\$	0.07	\$	(0.06)	\$	(0.01)
Weighted average common shares outstanding:								
Basic		30,570,719		30,370,229		30,521,022		30,272,674
Diluted		30,570,719		30,370,229		30,521,022		30,272,674

See accompanying notes to the condensed consolidated financial statements.

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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(Unaudited; dollars in thousands)**

	<b>Nine months ended</b>	
	<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>
Operating activities:		
Net loss	\$ (1,900)	\$ (257)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	26,567	18,697
Non-cash employee compensation expense	2,004	2,392
Loss on sale of property	128	953
Equity in losses of unconsolidated related parties	1,285	411
Minority interests	(764)	(190)
Deferred tax benefit	(1,375)	(176)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(4,950)	1,956
Accounts payable, accrued expenses and other liabilities	(5,333)	(7,716)
Net cash provided by operating activities	15,662	16,070
Investing activities:		
Capital expenditures for property and equipment	(130,095)	(77,197)
Cash distributions from unconsolidated related parties		18,902
Investments in and advances to related parties	(16,981)	(357)
Investment in development	(20,245)	
Purchase of minority interest	(6,900)	
Issuance of notes receivable	(3,266)	
Proceeds from sale of assets		2,045
Increase (decrease) in restricted cash	1,133	(1,257)
Decrease in escrows	842	554
Net cash used in investing activities	(175,512)	(57,310)
Financing activities:		
Principal payments on long-term debt	(1,008)	(1,360)
Proceeds from issuance of long-term debt	86,538	37,938
Payment of loan costs	(925)	(1,160)
Net cash provided by financing activities	84,605	35,418
Net decrease in cash and cash equivalents	(75,245)	(5,822)
Cash and cash equivalents, beginning of period	96,778	54,782
Cash and cash equivalents, end of period	\$ 21,533	\$ 48,960

Supplemental Cash Flow Information-



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Cash paid for interest, net of capitalized interest	\$ 9,761	\$ 4,527
Cash paid for income taxes, net of refunds	\$ 266	\$ 329
Non-cash items:		
Change in construction in process accruals	\$ 11,391	\$ 5,785
Guarantee on loan for related party	\$ 1,371	\$

See accompanying notes to the condensed consolidated financial statements.

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**GREAT WOLF RESORTS, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited, dollars in thousands, except per share amounts)

**1. ORGANIZATION**

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

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

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

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

	<b>Ownership Percentage</b>	<b>Opening</b>	<b>Guest Suites</b>	<b>Condo Units</b>	<b>Indoor Entertainment Area (1) (Approx. ft<sup>2</sup>)</b>
<b>Existing Resorts:</b>					
Wisconsin Dells, WI (2)	30.32%	1997	308	77	102,000
Sandusky, OH (2)	30.32%	2001	271		41,000
Traverse City, MI (3)	100%	2003	280		51,000
Kansas City, KS	100%	2003	281		49,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		78,000
Pocono Mountains, PA	100%	2005	401		91,000
Niagara Falls, ONT (4)		2006	406		94,000
Mason, OH (5)	100%	2006	401		93,000
<b>Resorts Under Construction:</b>					
Grapevine, TX (6)	100%	Late 2007 Early	402		98,000
Grand Mound, WA (7)	49%	2008 Early	398		78,000
Concord, NC (8)	100%	2009	400		95,000

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- (1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room and fitness room, as well as our Aveda® spa in the resorts that have such amenities.
- (2) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.68% interest in the joint venture, and we have a 30.32% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture under long-term agreements, subject to earlier termination in certain situations.
- (3) Construction for the expansion of a 9,000 square foot conference center space began in May 2007. We expect to complete the expansion in late 2007.
- (4) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this

resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016. We manage the resort on behalf of Ripley and also provide central reservation services.

- (5) We initially entered into a joint venture agreement with a subsidiary of CBS Corporation (CBS) to build this resort and attached conference center. In June 2007 we purchased CBS's equity interest in this joint venture, and we now own 100% of the resort.
  
- (6) We are developing a Great Wolf Lodge resort in Grapevine, Texas. The northwoods-themed, 402-suite resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort began in June 2006 with expected completion in late 2007. In 2007, we announced plans to build an additional 203 suites and 20,000 square feet of meeting space as an expansion of this resort. Construction

on the expansion is scheduled to begin in late 2007 and be completed in December 2008.

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*General* We have prepared these unaudited condensed consolidated interim financial statements according to the rules and regulations of the Securities and Exchange Commission. Accordingly, we have omitted certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America. These interim financial statements should be read in conjunction with the financial statements, accompanying notes and other information included in our Annual Report on Form 10-K for the year ended December 31, 2006.

The accompanying unaudited condensed consolidated interim financial statements reflect all adjustments, which are of a normal and recurring nature, necessary for a fair presentation of the financial condition and results of operations and cash flows for the periods presented. The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions. Such estimates and

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assumptions affect the reported amounts of assets and liabilities, as well as the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our actual results could differ from those estimates. The results of operations for the interim periods are not necessarily indicative of the results to be expected for the entire year.

*Principles of Consolidation* Our consolidated financial statements include our accounts and the accounts of all of our majority owned subsidiaries. As part of our consolidation process, we eliminate all significant intercompany balances and transactions.

*Investments in and Advances to Related Parties* As of September 30, 2007, we have investments in two joint ventures that we do not consolidate:

§ A 30.32% interest in a joint venture that owns Great Wolf Lodge resorts in Wisconsin Dells, Wisconsin and Sandusky, Ohio.

§ A 49% interest in a joint venture that owns a Great Wolf Lodge resort under construction in Grand Mound, Washington.

We use the equity method to account for our investments in unconsolidated joint ventures, as we do not have a controlling interest. Net income or loss is allocated between the owners in the joint ventures based on the hypothetical liquidation at book value method (HLBV). Under the HLBV method, net income or loss is allocated between the owners based on the difference between each owner's claim on the net assets of the joint venture at the end and beginning of the period, after taking into account contributions and distributions. Each owner's share of the net assets of the joint venture is calculated as the amount that the owner would receive if the joint venture were to liquidate all of its assets at net book value and distribute the resulting cash to creditors and owners in accordance with their respective priorities.

Included in our Investment in and Advances to Related Parties line on our September 30, 2007 consolidated balance sheet is a preferred equity investment of \$8,000 in one of our joint ventures. This preferred equity investment bears interest at 11%.

*Guarantee* We recognize guarantees in accordance with FASB Interpretation No. 45 (FIN 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees*. FIN 45 clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. We have provided a partial guarantee for up to \$49,980 of mortgage debt obtained by one of our joint ventures. Based on our assessment of the likelihood of having to possibly perform on this guarantee, we have recorded \$1,370 as the estimated fair value of this guarantee at its inception, as an increase in our investment in the unconsolidated joint venture and a liability on our consolidated balance sheet.

*Minority Interest* We record the non-owned equity interests of our consolidated subsidiaries as minority interests on our consolidated balance sheets. The minority ownership interest of our earnings or loss, net of tax, is classified as *Minority interests* in our condensed consolidated statements of operations. In June 2007 we purchased the minority interest in the one resort that had a minority interest, and we now own 100% of the resort. The excess of the purchase price over the estimated fair value of tangible and identifiable intangible assets acquired was recorded as an increase to goodwill of \$1,907.

*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. The rate determined is used in providing for income taxes on a year-to-date basis.

*Other Comprehensive Income* We record unrealized gain and loss on interest rate swaps in accordance with Financial Accounting Standards (SFAS) 133, *Accounting for Derivative Instruments and Hedging Activities*, which requires the effective portion of the swap's gain or loss to be initially reported as a component of other comprehensive income (loss) and subsequently reclassified into earnings when the forecasted transaction affects earnings. The ineffective portion of the gain or loss is reported in earnings immediately.

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

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

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

condominium sales-revenues derived from sales of condominium units to third-party owners.

We evaluate the performance of each segment based on earnings before interest, income taxes, and depreciation and amortization (EBITDA), excluding minority interests and equity in earnings of unconsolidated related parties. The following summarizes significant financial information regarding our segments:

	<b>Resort Ownership/ Operation</b>	<b>Resort Third- Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Three months ended September 30, 2007</b>					
Revenues	\$ 45,738	\$ 5,160	\$	\$	\$ 50,898
EBITDA, excluding certain items	12,132	2,145		465	\$ 14,742
Depreciation and amortization	(8,843)			(262)	(9,105)
Investment income					281
Interest expense, net					(3,278)
Income before income taxes, minority interests, and equity in loss of unconsolidated related parties					\$ 2,640
Additions to long-lived assets	37,361			140	\$ 37,501
<b>Nine months ended September 30, 2007</b>					
Revenues	\$ 131,270	\$ 14,378	\$	\$	\$ 145,648
EBITDA, excluding certain items	29,638	5,526		(2,949)	\$ 32,215
Depreciation and amortization	(26,109)			(458)	(26,567)
Investment income					336
Interest expense, net					(8,739)
Loss before income taxes, minority interests, and equity in loss of unconsolidated related parties					\$ (2,755)



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Additions to long-lived assets	129,613		482	\$ 130,095
Total assets	618,095	2,507	125,024	\$ 745,626

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	<b>Resort Ownership/ Operation</b>	<b>Resort Third-Party Management</b>	<b>Condominium Sales</b>	<b>Other</b>	<b>Totals per Financial Statements</b>
<b>Three months ended September 30, 2006</b>					
Revenues	\$ 35,891	\$ 4,888	\$	\$	\$ 40,779
EBITDA, excluding certain items	9,865	1,741	(120)	(1,269)	\$ 10,217
Depreciation and amortization	(6,294)			(136)	(6,430)
Interest expense, net					(954)
Loss before income taxes, minority interests, and equity in earnings of unconsolidated related parties					\$ (2,833)
Additions to long-lived assets	27,248			194	\$ 27,442
<b>Nine months ended September 30, 2006</b>					
Revenues	\$ 101,432	\$ 13,010	\$	\$	\$ 114,442
EBITDA, excluding certain items	25,910	3,879	(268)	(7,947)	\$ 21,574
Depreciation and amortization	(18,336)			(361)	(18,697)
Interest expense, net					(3,084)
Loss before income taxes, minority interests, and equity in loss of unconsolidated related parties					\$ (207)
Additions to long-lived assets	76,682			515	\$ 77,197
Total assets	527,692	607		114,338	\$ 642,637

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

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

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

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We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of \$978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 and 2006 U.S. Federal income tax return related to transaction costs from our IPO. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year.

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

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

**3. SHARE-BASED COMPENSATION**

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

We recognized \$598, and \$2,004, net of estimated forfeitures, in share-based compensation expense for the three and nine months ended September 30, 2007, respectively. The total income tax benefit recognized related to share-based compensation was \$251 and \$842 for the three and nine months ended September 30, 2007, respectively. We recognize compensation expense on grants of share-based compensation awards on a straight-line basis over the requisite service period of each award recipient. As of September 30, 2007, total unrecognized compensation cost related to share-based compensation awards was \$4,044, which we expect to recognize over a weighted average period of approximately 3.1 years.

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,740 options, stock appreciation rights or shares of our common stock to employees and directors. At September 30, 2007, there were 1,617,036 shares available for future grants under the Plan.

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

*Stock Options*

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

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We recorded stock option expense of \$431 and \$1,139 for the three and nine months ended September 30, 2007, respectively. There were no stock options granted during the nine months ended September 30, 2007 or 2006. We recorded stock option expense of \$305 and \$1,292 for the three and nine months ended September 30, 2006, respectively.

A summary of stock option activity during the nine months ended September 30, 2007, is:

	<b>Shares</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>
Number of shares under option:			
Outstanding at beginning of period	1,064,500	\$ 17.55	
Granted			
Exercised	(167)	\$ 12.40	
Forfeited	(76,833)	\$ 20.90	
Outstanding at end of period	987,500	\$ 17.29	7.28 years
Exercisable at end of period	648,348	\$ 17.36	7.25 years

There was no intrinsic value of our outstanding or exercisable stock options at September 30, 2007 or 2006.

*Market Condition Share Awards*

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

We granted 215,592 and 81,820 market condition share awards during the nine months ended September 30, 2007 and 2006, respectively. We recorded share based compensation expense of \$120 and \$402 for the three and nine months ended September 30, 2007, respectively. We recorded share based compensation expense of \$129 and \$353 for the three and nine months ended September 30, 2006, respectively.

Of the 2007 market condition shares awards granted:

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

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

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

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

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

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

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

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

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

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

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

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

Of the 2006 market condition shares awards granted:

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

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

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

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

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

*Performance Share Awards*

Certain officers are eligible to receive shares of our common stock in payment of performance share awards granted to them in accordance with the terms thereof. We granted 23,149 and 27,273 performance shares during the nine months ended September 30, 2007 and 2006, respectively. Grantees of performance shares are eligible to receive shares of our common stock based on the achievement of certain individual and departmental performance criteria during the calendar year. The per share fair value of performance shares granted during the nine months ended September 30, 2007 and 2006, was \$13.10 and \$11.03, respectively, which represents the fair value of our common stock on the grant date. We recorded share based compensation expense of \$25 and \$76 for the three and nine months ended September 30, 2007, respectively. We recorded share based compensation expense of \$82 and \$228 for the three and nine months ended September 30, 2006, respectively.

Based on our achievement of certain individual and departmental performance goals, employees earned and were issued 17,949 performance shares in February 2007 related to the 2006 grants. As a result, we recorded a reduction in expense of \$103 during the nine months ended September 30, 2007, related to the shares not issued.

*Deferred Compensation Awards*

Pursuant to their employment arrangements, certain executives received bonuses upon completion of the IPO. Executives receiving bonus payments totaling \$2,200 elected to defer those payments pursuant to our deferred compensation plan. To satisfy this obligation, we contributed 129,412 shares of our common stock to the trust that holds the assets to pay obligations under our deferred compensation plan. The fair value of that stock at the date of contribution was \$2,200. In accordance with the provisions of EITF Issue No. 97-14, Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested, we have recorded the fair value of the shares of common stock, at the date the shares were contributed to the trust, as a reduction of our stockholders' equity. Also, as prescribed by EITF Issue No. 97-14, we account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded share based compensation revenue of \$245 and \$207, for the three and nine months ended September 30, 2007, respectively. We recorded share based compensation expense (revenue) of \$(6) and \$214, for the three and nine months ended September 30, 2006, respectively.

*Non-vested Shares*

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

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

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	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>	<b>Aggregate Intrinsic Value</b>
Non-vested shares balance at beginning of period	245,000		
Granted	143,711	\$ 13.47	
Forfeited	(5,000)	\$ 10.79	
Vested	(46,600)	\$ 12.75	
Non-vested shares balance at end of period	337,111	\$ 12.35	\$ 167

We recorded share based expense of \$267 and \$697 for the three and nine months ended September 30, 2007, respectively. We recorded share based expense of \$210 and \$305 for the three and nine months ended September 30, 2006, respectively.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consist of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Land and improvements	\$ 38,121	\$ 38,058
Building and improvements	219,499	178,464
Furniture, fixtures and equipment	258,436	243,991
Construction in process	135,468	71,848
	651,524	532,361
Less accumulated depreciation	(68,431)	(42,393)
Property and equipment, net	\$ 583,093	\$ 489,968

Depreciation expense was \$8,941 and \$6,326 for the three months ended September 30, 2007 and 2006, respectively. Depreciation expense was \$26,084 and \$18,737 for the nine months ended September 20, 2007 and 2006, respectively.

**5. LONG-TERM DEBT**

Long-term debt consists of the following:

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	\$ 71,869	\$ 72,801
Mason mortgage loan	75,858	55,792
Pocono Mountains mortgage loan	97,000	97,000
Grapevine construction loan	37,477	
Junior subordinated debentures	80,545	51,550
Other Debt:		
City of Sheboygan bonds	8,437	8,383



City of Sheboygan loan	3,733	3,863
	374,919	289,389
Less current portion of long-term debt	(1,654)	(1,432)
Total long-term debt	\$ 373,265	\$ 287,957

*Traverse City/Kansas City Mortgage Loan* This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at September 30, 2007.

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*Mason Mortgage Loan* This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 265 basis points (total rate of 7.66% as of September 30, 2007). The loan matures in December 2008 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. This loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at September 30, 2007.

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

*Pocono Mountains Mortgage Loan* In December 2006 we closed on a \$97,000 first mortgage loan secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures December 1, 2016. The loan is interest only for the initial 18-month period and thereafter is subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at September 30, 2007.

*Grapevine Construction Loan* In July 2006 we closed on a \$79,500 loan to construct the Great Wolf Lodge in Grapevine, Texas. The loan is secured by a first mortgage on the Grapevine, Texas property. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (total rate of 7.72% as of September 30, 2007). The loan matures in July 2009 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at September 30, 2007.

*Junior Subordinated Debentures* In March 2005 we completed a private offering of \$50,000 of trust preferred securities (TPS) through Great Wolf Capital Trust I (Trust I), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.80% through March 2015 and then floats at LIBOR plus a spread of 310 basis points thereafter. The securities mature in March 2035 and are callable at no premium after March 2010. In addition, we invested \$1,500 in Trust I's common securities, representing 3% of the total capitalization of Trust I.

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

In June 2007 we completed a private offering of \$28,125 of TPS through Great Wolf Capital Trust III (Trust III), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.90% through June 2012 and then floats at LIBOR plus a spread of 300 basis points thereafter. The



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securities mature in June 2017 and are callable at no premium after June 2012. In addition, we invested \$870 in the Trust's common securities, representing 3% of the total capitalization of Trust III.

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

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

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

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

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

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

**Through  
September 30,**

2008	\$ 1,654
2009	3,718
2010	5,308
2011	113,046
2012	3,306
Thereafter	247,887
Total	\$ 374,919

**6. COMPREHENSIVE INCOME**

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SFAS 130, Reporting Comprehensive Income, requires the disclosure of the components included in comprehensive income. For the three and nine months ended September 30, 2007, we recorded comprehensive loss, net of tax of approximately \$329 and \$170, respectively, related to unrealized loss on our interest rate swap. We had no similar amount for the three and nine months ended September 30, 2006.

**7. EARNINGS PER SHARE**

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

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

	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income (loss) attributable to common shares	\$ 1,761	\$ 2,088	\$ (1,900)	\$ (257)
Weighted average common shares outstanding basic	30,570,719	30,370,229	30,521,022	30,272,674
Weighted average common shares outstanding diluted	30,570,719	30,370,229	30,521,022	30,272,674
Net income (loss) per share basic	\$ 0.06	\$ 0.07	\$ (0.06)	\$ (0.01)
Net income (loss) per share diluted	\$ 0.06	\$ 0.07	\$ (0.06)	\$ (0.01)

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

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

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

**Overview**

The terms Great Wolf Resorts, us, we and our are used in this report to refer to Great Wolf Resorts, Inc. *Business.* We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature approximately 270 to

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400 family suites that sleep from six to ten people and each includes a wet bar, microwave oven, refrigerator and dining and sitting area. We provide a full-service entertainment resort experience to our target customer base: families with children ranging in ages from 2 to 14 years old that live within a convenient driving distance of our resorts. We operate under our Great Wolf Lodge® and Blue Harbor Resort brand names. Our resorts are open year-round and provide a consistent and comfortable environment where our guests can enjoy our various amenities and activities.

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

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

	<b>Ownership Percentage</b>	<b>Opening</b>	<b>Guest Suites</b>	<b>Condo Units</b>	<b>Indoor Entertainment Area (1) (Approx. ft<sup>2</sup>)</b>
<b>Existing Resorts:</b>					
Wisconsin Dells, WI (2)	30.32%	1997	308	77	102,000
Sandusky, OH (2)	30.32%	2001	271		41,000
Traverse City, MI (3)	100%	2003	280		51,000
Kansas City, KS	100%	2003	281		49,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		78,000
Pocono Mountains, PA	100%	2005	401		91,000
Niagara Falls, ONT (4)		2006	406		94,000
Mason, OH (5)	100%	2006	401		93,000
<b>Resorts Under Construction:</b>					
		Late	402		98,000
Grapevine, TX (6)	100%	2007			
		Early	398		78,000
Grand Mound, WA (7)	49%	2008			
		Early	400		95,000
Concord, NC (8)	100%	2009			

(1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children's activity room and fitness room, as well as

our Aveda® spa  
in the resorts  
that have such  
amenities.

- (2) These properties are owned by a joint venture. CNL Income Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties, owns a 69.68% interest in the joint venture, and we have a 30.32% interest. We operate the properties and license the Great Wolf Lodge brand to the joint venture under long-term agreements, subject to earlier termination in certain situations.
- (3) Construction for the expansion of a 9,000 square foot conference center space began in May 2007. We expect to complete the expansion in late 2007.

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- (4) An affiliate of Ripley Entertainment, Inc. (Ripley), our licensee, owns this resort. We have granted Ripley a license to use the Great Wolf Lodge name for this resort through April 2016. We manage the resort on behalf of Ripley and also provide central reservation services.
- (5) We initially entered into a joint venture agreement with a subsidiary of CBS Corporation (CBS) to build this resort and attached conference center. In June 2007 we purchased CBS's equity interest in this joint venture, and we now own 100% of the resort.
- (6) We are developing a Great Wolf Lodge resort in Grapevine, Texas. The northwoods-themed, 402-suite resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort began in June 2006 with expected completion in late 2007. In 2007, we announced plans



to build an additional 203 suites and 20,000 square feet of meeting space as an expansion of this resort. Construction on the expansion is scheduled to begin in late 2007 and be completed in December 2008.

- (7) We have entered into a joint venture agreement with The Confederated Tribes of the Chehalis Reservation (Chehalis) to build this resort. We will operate the resort under our Great Wolf Lodge brand. Chehalis will lease the land needed for the resort to the joint venture, and they will have a majority equity interest in the joint venture. Construction on the resort began in October 2006 with expected completion in March 2008.
- (8) We have announced plans to develop a Great Wolf Lodge resort in Concord, North Carolina. The northwoods-themed, approximately 400-suite resort will provide a comprehensive package of first-class destination lodging amenities and activities. Construction on the

resort began in  
October 2007 with  
expected completion  
in early 2009.

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

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

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

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

*Outlook.* We believe that no other operator or developer other than Great Wolf Resorts has established a portfolio of family entertainment resorts featuring indoor waterparks. We intend to continue to expand our portfolio of owned resorts

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throughout the United States and to selectively seek licensing and management opportunities domestically and internationally. The resorts we are currently constructing and plan to develop in the future require significant industry knowledge and substantial capital resources. Similar family entertainment resorts compete directly with several of our resorts.

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

In attempting to execute our internal and external growth strategies, we are subject to a variety of business challenges and risks. These challenges include: development and licensing of properties; increases in costs of constructing, operating and maintaining our resorts; competition from other entertainment companies, both within and outside our industry segment; and external economic risks, including family vacation patterns and trends. We seek to meet these challenges by providing sufficient management oversight to site selection, development and resort operations, concentrating on growing and strengthening awareness of our brand and demand for our resorts, and maintaining our focus on safety.

We believe that our Traverse City and Sandusky resorts have been and will continue to be affected by adverse general economic circumstances in the Michigan/Northern Ohio region (such as bankruptcies of several major companies and/or large announced layoffs by major employers) and increased competition that has occurred in these markets over the past three years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts' largest suppliers of customers. We believe the adverse general economic circumstances in the region have negatively impacted overall discretionary consumer spending in that region over the past year and may continue to do so going forward. We believe this has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts. Also, we have experienced a much slower-than-expected occupancy ramp-up and lower-than-expected average daily room rates at our Sheboygan, Wisconsin property since its opening in 2004. We believe this operating weakness has been primarily attributable to the fact that the overall development of Sheboygan as a tourist destination continues to lag behind our initial expectations. We believe this has impacted and will likely continue to impact the consumer demand for our indoor waterpark resort in that market and the operations of the resort. Additionally, our Mason resort opened its first phase in December 2006 and is continuing to ramp up during its first full year of operations.

Our external growth strategies are based primarily on our development of additional indoor waterpark resorts (either alone or in conjunction with joint venture partners) and the development of additional indoor waterpark resorts by others (in a licensing situation). Developing resorts of the size and scope of our family entertainment resorts generally requires financing for a significant portion of a project's expected construction costs. The subprime loan crisis in 2007 has precipitated a general tightening in US lending markets, resulting in a decrease in the overall availability of construction financing and less favorable terms for borrowers. Although we cannot predict the ultimate effect on our external growth strategy of the current credit environment, we believe that the availability to us of construction financing may be negatively impacted in the future and that terms of construction financing may be less favorable than we have obtained in recent years. Notwithstanding the current and anticipated continuing difficulties in the credit markets, we believe we can continue to obtain construction financing sufficient to execute our development strategies.

*Revenue and Key Performance Indicators.* We seek to generate positive cash flows and maximize our return on invested capital from each of our owned resorts. Our rooms revenue represents sales to guests of room nights at our resorts and is the largest contributor to our cash flows and profitability. Rooms revenue accounted for approximately 67% of our total resort revenue for the nine months ended September 30, 2007. We employ sales and marketing

efforts to increase overall demand for rooms at our resorts. We seek to optimize the relationship between room rates and

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occupancies through the use of yield management techniques that attempt to project demand in order to selectively increase room rates during peak demand. These techniques are designed to assist us in managing our higher occupancy nights to achieve maximum rooms revenue and include such practices as:

Monitoring our historical trends for occupancy and estimating our high occupancy nights;

Offering the highest discounts to previous guests in off-peak periods to build customer loyalty and enhance our ability to charge higher rates in peak periods;

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

Monitoring sales of room types daily to evaluate the effectiveness of offered discounts; and

Offering specials on standard suites and yielding better rates on larger suites when standard suites sell out. In addition, we seek to maximize the amount of time and money spent on-site by our guests by providing a variety of revenue-generating amenities.

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

Occupancy;

Average daily room rate, or ADR;

Revenue per available room, or RevPAR;

Total revenue per available room, or Total RevPAR;

Total revenue per occupied room, or Total RevPOR; and

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

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

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

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

RevPAR is the product of occupancy and ADR.

Total RevPAR and Total RevPOR are defined as follows:

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

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

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. While ADR

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and RevPAR only include rooms revenue, Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the nine months ended September 30, 2007, approximately 33% of our total resort revenues consisted of non-rooms revenue.

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

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

**Recent Accounting Pronouncements**

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

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

We adopted the provisions of FIN 48 on January 1, 2007. The adoption of FIN 48 did not impact the consolidated financial condition, results of operations or cash flows. At January 1, 2007, we had unrecognized tax benefits of \$978, which primarily related to uncertainty regarding the sustainability of certain deductions taken on our 2005 and 2006 U.S. Federal income tax return related to transaction costs from our IPO. To the extent these unrecognized tax benefits are ultimately recognized, they will impact the effective tax rate in a future period. We do not expect the total amount of unrecognized tax benefits to change significantly in the next year.

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

In February 2007, the FASB issued SFAS 159, The Fair Value Option for Financial Assets and Financial Liabilities. SFAS 159 permits companies to choose to measure many financial assets and liabilities at fair value.

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Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. We are currently evaluating the impact of the adoption of this statement.

**Non-GAAP Financial Measures**

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

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

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

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

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

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

Our management uses EBITDA:

as a measurement of operating performance because it assists us in comparing our operating performance on a consistent basis as it removes the impact of items directly resulting from our asset base, primarily depreciation and amortization, from our operating results;

for planning purposes, including the preparation of our annual operating budget;

as a valuation measure for evaluating our operating performance and our capacity to incur and service debt, fund capital expenditures and expand our business; and

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

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

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

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	<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Net income (loss)	\$ 1,761	\$ 2,088	\$ (1,900)	\$ (257)
Adjustments:				
Interest expense, net	3,278	954	8,739	3,084
Income tax expense (benefit)	715	1,340	(1,376)	(172)
Depreciation and amortization	9,105	6,430	26,567	18,697
<b>EBITDA</b>	<b>\$ 14,859</b>	<b>\$ 10,812</b>	<b>\$ 32,030</b>	<b>\$ 21,352</b>

**Results of Operations****General**

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

Our financial information includes:

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

our Traverse City, Kansas City, Sheboygan, Williamsburg, Pocono Mountains and Mason operating resorts;

equity interests in resorts in which we have ownership interests but which we do not consolidate; and

our resorts that are under construction which we will consolidate.

*Revenues.* Our revenues consist of:

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

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

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

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

Our other operating expenses include the following items:

selling, general and administrative expenses, which are associated with the operations and management of resorts and which consist primarily of expenses such as corporate payroll and related benefits, operations management,



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sales and marketing, finance, legal, information technology support, human resources and other support services, as well as general corporate expenses;

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

depreciation and amortization; and

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

***Three months ended September 30, 2007, compared with the three months ended September 30, 2006***

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

	<b>All Properties (a)</b>		<b>Same Store Comparison (b)</b>		
	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2007</b>	<b>Three months ended September 30, 2006</b>	<b>Increase (Decrease)</b>	
				<b>\$</b>	<b>%</b>
<b>Occupancy</b>	69.9 %	73.0 %	73.4 %	N/A	(0.5)%
<b>ADR</b>	\$ 248.36	\$248.75	\$ 242.67	\$ 6.08	2.5 %
<b>RevPAR</b>	\$ 173.55	\$181.63	\$ 178.17	\$ 3.46	1.9 %
<b>Total RevPOR</b>	\$ 371.06	\$370.81	\$ 358.76	\$12.05	3.4 %
<b>Total RevPAR</b>	\$ 259.29	\$270.76	\$ 263.40	\$ 7.36	2.8 %

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

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

Williamsburg,  
Poconos, and  
Niagara Falls  
resorts).

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

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

	<b>Three months ended September 30,</b>		<b>Increase (Decrease)</b>
	<b>2007</b>	<b>2006</b>	
Revenues	\$50,898	\$40,779	\$10,119
Operating expenses:			
Departmental operating expenses	16,455	12,345	4,110
Selling, general and administrative	10,005	9,382	623
Property operating costs	6,553	5,313	1,240
Depreciation and amortization	9,105	6,430	2,675
Net operating income	5,637	3,787	1,850
Net interest expense	3,278	954	2,324
Income tax expense	784	1,102	(318)
Net income	1,761	2,088	(327)

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*Revenues.* Total revenues increased primarily due to the opening of our Mason resort in December 2006, our construction of 104 additional guest suites at our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts. Revenues increased at these resorts by \$10,047 for the three months ended September 30, 2007, as compared to the three months ended September 30, 2006.

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

Departmental expenses increased by \$4,095 for the three months ended September 30, 2007, as compared to the three months ended September 30, 2006, due primarily to the opening of our Mason resort, the expansion of our Williamsburg resort and increased revenues at our Williamsburg and Pocono Mountains resorts.

Selling, general and administrative expenses increased by \$2,326 due primarily to the opening of our Mason resort, the expansion of our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts, while corporate selling, general and administrative expenses decreased by \$1,114 due primarily to decreased legal costs, and more capitalizable labor, due to increased development activity for the three months ended September 30, 2007, as compared to the three months ended September 30, 2006.

Total property operating costs (exclusive of opening costs) increased \$1,232 for the three months ended September 30, 2007, as compared to the three months ended September 30, 2006, due primarily to the opening of our Mason resort, as well as increased repairs and maintenance expense and increased utilities expense related to the expansion of our Williamsburg resort and amenity additions to several of our other resorts. Opening costs related to our resorts were \$1,291 for the three months ended September 30, 2007, as compared to \$1,282 for the three months ended September 30, 2006.

Total depreciation and amortization increased mainly due to the opening of our Mason resort and the expansion at our Williamsburg resort. The total increase in depreciation and amortization at these two resorts was \$2,352 during the three months ended September 30, 2007 as compared to three months ended September 30, 2006.

*Net operating income.* During the three months ended September 30, 2007, we had net operating income of \$5,637 as compared to a net operating income of \$3,787 for the three months ended September 30, 2006.

*Net income.* Net income decreased due to the following:

An increase in net interest expense of \$2,324 mainly due to mortgage debt related our Pocono Mountains and Mason resorts.

This increase was partially offset by:

An increase in operating income from \$3,787 for the three months ended September 30, 2006, to \$5,637 for the three months ended September 30, 2007; and

An decrease of \$318 in income tax expense recorded in the three months ended September 30, 2007, as compared to the three months ended September 30, 2006.

***Nine months ended September 30, 2007, compared with the nine months ended September 30, 2006***

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

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	<b>All Properties (a)</b>		<b>Same Store Comparison (b)</b>		
	<b>Nine months ended</b>	<b>Nine months ended</b>	<b>Nine months ended</b>	<b>Increase (Decrease)</b>	
	<b>September 30, 2007</b>	<b>September 30, 2007</b>	<b>September 30, 2006</b>	<b>\$</b>	<b>%</b>
<b>Occupancy</b>	65.1%	67.0%	67.8%	N/A	(1.2)%
<b>ADR</b>	\$ 244.90	\$240.32	\$ 237.85	\$ 2.47	1.0%
<b>RevPAR</b>	\$ 159.52	\$160.93	\$ 161.29	\$(0.36)	(0.2)%
<b>Total RevPOR</b>	\$ 369.58	\$360.69	\$ 355.82	\$ 4.87	1.4%
<b>Total RevPAR</b>	\$ 240.73	\$241.53	\$ 241.29	\$ 0.24	0.1%

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

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

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

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

<b>Nine months ended September 30,</b>	<b>Increase</b>
--	-----------------

	<b>2007</b>	<b>2006</b>	<b>(Decrease)</b>
Revenues	\$145,648	\$114,442	\$31,206
Operating expenses:			
Departmental operating expenses	49,145	35,913	13,232
Selling, general and administrative	34,582	31,983	2,599
Property operating costs	20,726	14,888	5,838
Depreciation and amortization	26,567	18,697	7,870
Net operating income	5,648	2,877	2,771
Net interest expense	8,739	3,084	5,655
Income tax benefit	(1,157)	(83)	(1,074)
Net loss	(1,900)	(257)	(1,643)

*Revenues.* Total revenues increased primarily due to the opening of our Mason resort in December 2006, our construction of 104 additional guest suites at our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts. Revenues increased at these resorts by \$31,662 for the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006.

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

Departmental expenses increased by \$13,568 for the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006, due primarily to the opening of our Mason resort, the expansion of our Williamsburg resort and increased revenues at our Williamsburg and Pocono Mountains resorts.

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Selling, general and administrative expenses increased by \$7,333 due primarily to the opening of our Mason resort, the expansion of our Williamsburg resort and increased marketing efforts at our Williamsburg and Pocono Mountains resorts, while corporate selling, general and administrative expenses decreased by \$2,548 due to decreased legal costs, more capitalizable labor, due to increased development activity, and a higher level of start-up costs (which are deducted from selling, general and administrative expenses and included in property operating costs) for the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006.

Total property operating costs (exclusive of opening costs) increased \$5,111 for the nine months ended September 30, 2007, as compared to September 30, 2006, mainly due to the opening of our Mason resort, as well as increased repairs and maintenance expense, and increased utilities expense related to the expansion of our Williamsburg resort and amenity additions to several of our other resorts. Opening costs related to our resorts were \$4,713 for the nine months ended September 30, 2007, as compared to \$3,986 for the nine months ended September 30, 2006.

Total depreciation and amortization increased mainly due to the opening of our Mason resort and the expansion at our Williamsburg resort. The total increase in depreciation and amortization at these two resorts was \$6,839 during the nine months ended September 30, 2007, as compared to nine months ended September 30, 2006.

*Net operating income.* During the nine months ended September 30, 2007, we had net operating income of \$5,648 as compared to a net operating income of \$2,877 for the nine months ended September 30, 2006.

*Net loss.* Net loss increased due to the following:

An increase in net interest expense of \$5,655 mainly due to mortgage debt related to our Pocono Mountains and Mason resorts.

This increase was partially offset by:

An increase in operating income from \$2,877 for the nine months ended September 30, 2006, to \$5,648 for the nine months ended September 30, 2007.

§ An increase of \$1,074 in income tax benefit recorded in the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006.

**Segments**

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

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

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

condominium sales-revenues derived from sales of condominium units to third-party owners.

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

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	Three months ended September 30,			Nine months ended September 30,		
	2007	2006	Increase (Decrease)	2007	2006	Increase (Decrease)
<b>Resort Ownership/Operation</b>						
Revenues	\$45,738	\$35,891	\$9,847	\$131,270	\$101,432	\$29,838
EBITDA, excluding certain items	12,132	9,865	2,267	29,638	25,910	3,728
<b>Resort Third-Party Mgmt</b>						
Revenues	5,160	4,888	272	14,378	13,010	1,368
EBITDA, excluding certain items	2,145	1,741	404	5,526	3,879	1,647
<b>Condominium Sales</b>						
Revenues						
EBITDA, excluding certain items		(120)	120		(268)	268
<b>Other</b>						
Revenues						
EBITDA, excluding certain items	465	(1,269)	1,734	(2,949)	(7,947)	4,998

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

**Liquidity and Capital Resources**

We had total indebtedness of \$374,919 and \$289,389 as of September 30, 2007, and December 31, 2006, respectively, summarized as follows:

	September 30, 2007	December 31, 2006
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	\$ 71,869	\$ 72,801
Mason mortgage loan	75,858	55,792
Pocono Mountains mortgage loan	97,000	97,000
Grapevine construction loan	37,477	
Junior subordinated debentures	80,545	51,550
Other Debt:		
City of Sheboygan bonds	8,437	8,383
City of Sheboygan loan	3,733	3,863
	374,919	289,389
Less current portion of long-term debt	(1,654)	(1,432)
Total long-term debt	\$ 373,265	\$ 287,957

*Traverse City/Kansas City Mortgage Loan* This loan is secured by our Traverse City and Kansas City resorts. The loan bears interest at a fixed rate of 6.96%, is subject to a 25-year principal amortization schedule, and matures in January 2015. The loan has customary financial and operating debt compliance covenants. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at September 30, 2007.

*Mason Mortgage Loan* This loan is secured by our Mason resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 265 basis points (total rate of 7.66% as of September 30, 2007). The loan matures in December 2008 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. This loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at September 30, 2007.



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

*Pocono Mountains Mortgage Loan* In December 2006 we closed on a \$97,000 first mortgage loan secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures December 1, 2016. The loan is interest only for the initial 18-month period and thereafter is subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at September 30, 2007.

*Grapevine Construction Loan* In July 2006 we closed on a \$79,500 loan to construct the Great Wolf Lodge in Grapevine, Texas. The loan is secured by a first mortgage on the Grapevine, Texas property. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points (total rate of 7.72% as of September 30, 2007). The loan matures in July 2009 and also has two one-year extensions available at our option. The loan is interest-only during its initial three-year term and then is subject to a 25-year amortization schedule in the extension periods. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a maximum ratio of consolidated net long-term debt divided by consolidated trailing twelve month adjusted EBITDA and a minimum consolidated tangible net worth provision. The loan has no restrictions or fees associated with the repayment of the loan principal. We were in compliance with all covenants under this loan at September 30, 2007.

*Junior Subordinated Debentures* In March 2005 we completed a private offering of \$50,000 of trust preferred securities (TPS) through Great Wolf Capital Trust I (Trust I), a Delaware statutory trust which is our subsidiary. The securities pay holders cumulative cash distributions at an annual rate which is fixed at 7.80% through March 2015 and then floats at LIBOR plus a spread of 310 basis points thereafter. The securities mature in March 2035 and are callable at no premium after March 2010. In addition, we invested \$1,500 in Trust I's common securities, representing 3% of the total capitalization of Trust I.

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

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

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

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proceeds from our debenture sales, net of the costs of the TPS offering and our investment in Trust III, were \$27,193. We will use the net proceeds for future development costs.

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

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

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

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

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

**Year Ending  
September 30,**

2008	\$ 1,654
2009	3,718
2010	5,308
2011	113,046
2012	3,306
Thereafter	247,887
Total	\$ 374,919

**Short-Term Liquidity Requirements**

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

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

property taxes and insurance expenses;

interest expense and scheduled principal payments on outstanding indebtedness;

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general and administrative expenses; and

income taxes.

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

***Long-Term Liquidity Requirements***

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

scheduled debt maturities;

capital contributions and loans to unconsolidated joint ventures;

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

costs associated with the development of new resorts.

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

Our largest long-term expenditures are expected to be for capital expenditures for development of future resorts and capital contributions or loans to joint ventures owning resorts under construction or development. Such expenditures were \$167,321 for the nine months ended September 30, 2007. We expect to have approximately \$31,100 of such expenditures in the remainder of 2007 and \$150,000 in 2008. As discussed above, we expect to meet these requirements through a combination of cash provided by operations, cash on hand, contributions from joint venture partners, proceeds from investing activities and new and/or existing debt and/or equity issuances.

***Off Balance Sheet Arrangements***

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

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

We entered into our joint venture with The Confederated Tribes of the Chehalis Reservation to develop a Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This resort is currently under construction and is expected to open in early 2008. This joint venture is a limited liability company; we are a member of that limited liability company with a 49% ownership interest. At September 30,

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2007, the joint venture had aggregate outstanding indebtedness to third parties of \$37,846. We have provided a 49% guarantee on mortgage debt obtained by the Grand Mound joint venture.

As capital may be required to fund the activities of these resorts, we may be required to fund in the future the joint ventures' shares of the costs not funded by the majority owner of the joint venture, the joint ventures' operations or outside financing. Based on the nature of the activities conducted in these joint ventures, management cannot estimate with any degree of accuracy amounts that we may be required to fund in the long term. In the fourth quarter of 2007, we may loan up to \$7,200 to the Grand Mound joint venture to fund a portion of construction costs of the resort. Management does not currently believe that any additional future funding of these joint ventures will have an adverse effect on our financial condition, however, as currently we do not expect to make any other significant future capital contributions to these joint ventures.

**Contractual Obligations**

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

	<b>Total</b>	<b>Payment Terms</b>			<b>More Than 5 Years</b>
		<b>Less Than 1 Year</b>	<b>1-3 Years</b>	<b>3-5 Years</b>	
Debt obligations (1)	\$ 374,919	\$ 1,654	\$ 9,026	\$ 116,352	\$ 247,887
Operating lease obligations	1,778	542	767	384	85
Construction contracts	100,105	74,298	25,807		
Related party guarantee (2)	1,370	533	837		
Reserve on unrecognized tax benefits	1,289			1,289	
<b>Total</b>	<b>\$ 479,461</b>	<b>\$ 77,027</b>	<b>\$ 36,437</b>	<b>\$ 118,025</b>	<b>\$ 247,972</b>

(1) Includes \$8,437 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,733 of fixed rate debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal

property tax payments and room tax payments to be made by our Sheboygan resort.

- (2) We have provided a partial guarantee on mortgage debt obtained by one of our joint ventures.

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

**Working Capital**

We had \$21,533 of available cash and cash equivalents and working capital deficit of \$890 (current assets less current liabilities) at September 30, 2007, compared to the \$96,778 of available cash and cash equivalents and \$55,365 of working capital at December 31, 2006. The primary reason for the decline in our working capital balance from December 31, 2006 to September 30, 2007 was the use of cash for capital expenditures and investments in and advances to related parties, for our properties under development.

**Cash Flows**

*Nine months ended September 30, 2007, compared with the nine months ended September 30, 2006*

	<b>2007</b>	<b>2006</b>	<b>Increase (Decrease)</b>
Net cash provided by operating activities	\$ 15,662	\$ 16,070	\$ (408)
Net cash used in investing activities	(175,512)	(57,310)	(118,202)
Net cash provided by financing activities	84,605	35,418	49,187

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*Operating Activities.* The decrease in net cash provided by operating activities resulted primarily due to the increase of the add back of non-cash items and decline in working capital.

*Investing Activities.* The increase in net cash used in investing activities for the nine months ended September 30, 2007, as compared to the nine months ended September 30, 2006, resulted primarily from increased capital expenditures for our properties that are in service and our development properties. This increase in net cash used was partially offset by distributions received in 2006 from our unconsolidated related party.

*Financing Activities.* The increase in net cash provided by financing activities resulted primarily from the proceeds from our TPS transaction and draws on our Mason and Grapevine construction loans during the nine months ended September 30, 2007.

**Inflation**

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

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

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

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

As of September 30, 2007, we had total indebtedness of approximately \$374,919. This debt consisted of:  
 \$71,869 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

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

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

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

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\$75,858 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 265 basis points. The total rate was 7.66% at September 30, 2007. \$71,000 of this debt is effectively fixed at a rate of 7.65% due to the interest rate swap described above.

\$37,477 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 30-day LIBOR plus a spread of 260 basis points. The total rate was 7.72% at September 30, 2007.

\$8,437 of fixed rate debt (effective interest rate of 10.67%) recognized as a liability related to certain bonds issued by the City of Sheboygan and \$3,733 of noninterest bearing debt recognized as a liability related to a loan from the City of Sheboygan. These liabilities will be satisfied by certain future minimum guaranteed amounts of real and personal property tax payments and room tax payments to be made by the Sheboygan resort; and

As of September 30, 2007, we estimate the total fair value of the indebtedness described above to be \$3,839 less than their total carrying values, due to the terms of the existing debt being different than those terms we believe would currently be available to us for indebtedness with similar risks and remaining maturities.

If the prime rate and/or LIBOR were to increase by 1% or 100 basis points, the increase in interest expense on our variable rate debt would decrease future earnings and cash flows by approximately \$423 annually, based on our debt balances outstanding as of September 30, 2007. If the prime rate were to decrease by 1% or 100 basis points, the decrease in interest expense on our variable rate debt would be approximately \$423 annually, based on our debt balances outstanding as of September 30, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

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

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

**Changes In Internal Control**

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

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**PART II. OTHER INFORMATION**

**ITEM 1. LEGAL PROCEEDINGS**

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

**ITEM 1A. RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2006, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K are not the only risks facing us. In addition, as discussed in more detail in Management's Discussion and Analysis of Financial Condition and Results of Operations Outlook, the subprime loan crisis in 2007 has precipitated a general tightening in US lending markets which could negatively impact us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

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

None.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS**

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



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<b>Exhibit Number</b>	<b>Description</b>
2.1	Form of Merger Agreement (Delaware) (incorporated herein by reference to Exhibit 2.1 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
2.2	Form of Merger Agreement (Wisconsin) (incorporated herein by reference to Exhibit 2.2 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
3.1	Form of Amended and Restated Certificate of Incorporation for Great Wolf Resorts, Inc. dated December 9, 2004 (incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 filed August 12, 2004)
3.2	Form of Amended and Restated Bylaws of Great Wolf Resorts, Inc. effective September 12, 2006 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed September 18, 2006)
4.1	Form of the Common Stock Certificate of Great Wolf Resorts, Inc. (incorporated herein by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-1 filed October 21, 2004)
4.2	Junior Subordinated Indenture, dated as of March 15, 2005, between Great Wolf Resorts, Inc. and JP Morgan Chase Bank, National Association, as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed March 18, 2005)
4.3	Amended and Restated Trust Agreement, dated as of March 15, 2005, by and among Chase Manhattan Bank USA, National Association, as Delaware trustee; JP Morgan Chase Bank, National Association, as property trustee; Great Wolf Resorts, Inc., as depositor; and James A. Calder, Alex P. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed March 18, 2005)
4.4	Junior Subordinated Indenture, dated as of June 15, 2007, between Great Wolf Resorts, Inc. and Wells Fargo Bank, N.A., as trustee (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed June 19, 2007)
4.5	Amended and Restated Trust Agreement, dated as of June 15, 2007, by and among Great Wolf Resorts, Inc., as depositor, Wells Fargo Bank, N.A., as property trustee, Wells Fargo Delaware Trust Company, as Delaware trustee, and James A. Calder, Alex P. Lombardo and J. Michael Schroeder, as administrative trustees (incorporated herein by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed June 19, 2007)
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a-14(a) and Rule 15d-14(a)
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

\* Filed herewith.



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**SIGNATURE**

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

GREAT WOLF RESORTS, INC.

/s/ James A. Calder

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

Dated: November 6, 2007