Great Wolf Resorts, Inc.
Form 10-Q/A
March 01, 2010

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
AMENDMENT NO.1

(Mark One)

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

For the quarterly period ended September 30, 2009

OR

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

For the transition period from __________ to __________

Commission File Number 000-51064

GREAT WOLF RESORTS, INC.
(Exact name of registrant as specified in its charter)

Delaware	**51-0510250**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
122 West Washington Avenue Madison, Wisconsin 53703	**53703**
(Address of principal executive offices)	*(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 þ No o

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

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

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

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

The number of shares outstanding of the issuer s common stock was 31,297,046 as of November 5, 2009.

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EXPLANATORY NOTE

Great Wolf Resorts, Inc. is filing this Report on Form 10-Q/A for the quarterly period ended September 30, 2009 to reflect the restatement of its condensed consolidated financial statements, the notes thereto, and related disclosures.

In connection with the year-end closing process, our Audit Committee, in consultation with its management, determined that it was necessary to restate previously issued financial statements because of errors that occurred during the computation of the valuation allowance on certain deferred tax assets recorded as of September 30, 2009. To correct the errors, we have made adjustments (the Adjustments) to restate the previously issued financial statements as of and for the three and nine month periods ended September 30, 2009.

The Adjustments had the effect of decreasing our deferred tax liability by $5.2 million as of September 30, 2009, and decreasing our previously-reported net loss by $5.2 million for the three and nine month periods, respectively, ended September 30, 2009. The Adjustments are described in the table in Note 10 to the condensed consolidated financial statements.

This Form 10-Q/A has not been updated except as required to reflect the effects of the restatement. This amendment and restatement includes changes to Part I, Items 1, 2 and 4. Except as identified in the prior sentence, no other items included in the original Form 10-Q have been amended, and such items remain in effect as of the filing date of the original Form 10-Q.

Great Wolf Resorts, Inc.
Quarterly Report on Form 10-Q/A
For the Quarter Ended September 30, 2009
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PART I. FINANCIAL INFORMATION

ITEM 1. *FINANCIAL STATEMENTS*

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share and per share amounts)

	September 30, 2009 (Unaudited) (As restated)	December 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,994	$ 14,231
Accounts receivable, net of allowance for doubtful accounts of $109 and $114	2,709	2,167
Accounts receivable unconsolidated affiliates, net of allowance for doubtful accounts of $0 and $1,201	1,923	925
Inventory	5,301	4,265
Other current assets	12,056	3,055
Total current assets	49,983	24,643
Property and equipment, net	687,983	716,173
Investments in and advances to unconsolidated affiliates	29,327	43,855
Other assets	28,148	31,561
Other intangible assets	23,829	23,829
Total assets	$ 819,270	$ 840,061
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 14,638	$ 81,464
Accounts payable	5,157	23,217
Accounts payable unconsolidated affiliates	3	622
Accrued expenses	23,041	22,565
Accrued expenses unconsolidated affiliates		1,184
Advance deposits	7,961	7,498
Gift certificates payable	3,921	5,416
Total current liabilities	54,721	141,966
Mortgage debt	446,042	333,259
Other long-term debt	92,270	92,328
Deferred tax liability	666	
Deferred compensation liability	776	568
Total liabilities	594,475	568,121

Commitments and contingencies				
Stockholders equity:				
Common stock, $0.01 par value; 250,000,000 shares authorized; 31,298,546 and 30,982,646 shares issued and outstanding		313		310
Additional paid-in-capital		400,767		399,641
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding				
Accumulated deficit		(176,085)		(127,811)
Deferred compensation		(200)		(200)
Total stockholders equity		224,795		271,940
Total liabilities and stockholders equity	$	819,270	$	840,061

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

	Three months ended September 30,		Nine months ended September 30,	
	2009 (As restated)	2008	2009 (As restated)	2008
Revenues:				
Rooms	$ 46,214	$ 40,994	$ 122,869	$ 115,801
Food and beverage	11,877	10,088	33,084	30,751
Other hotel operations	11,333	9,759	30,458	28,439
Management and other fees	626	863	1,617	2,292
Management and other fees affiliates	1,202	1,767	3,636	4,363
	71,252	63,471	191,664	181,646
Other revenue from managed properties affiliates	3,966	5,942	14,486	14,993
Other revenue from managed properties	1,609		1,609	
Total revenues	76,827	69,413	207,759	196,639
Operating expenses by department:				
Rooms	6,332	5,407	17,309	15,827
Food and beverage	9,226	8,176	25,506	24,311
Other	8,926	7,832	24,618	22,573
Other operating expenses:				
Selling, general and administrative	14,911	11,637	46,542	41,729
Property operating costs	8,201	8,642	29,657	28,556
Depreciation and amortization	15,136	11,995	42,352	34,755
Loss on disposition of property	11	19	202	19
Asset impairment loss	24,000		24,000	
	86,743	53,708	210,186	167,770
Other expenses from managed properties affiliates	3,966	5,942	14,486	14,993
Other expenses from managed properties	1,609		1,609	
Total operating expenses	92,318	59,650	226,281	182,763
Net operating (loss) income	(15,491)	9,763	(18,522)	13,876
Gain on sale of unconsolidated affiliate	(962)		(962)	
Investment income affiliates	(310)	(625)	(1,030)	(1,629)
Interest income	(131)	(279)	(467)	(1,178)
Interest expense	9,671	6,808	24,715	20,599
	(23,759)	3,859	(40,778)	(3,916)

(Loss) income before income taxes and equity in unconsolidated affiliates								
Income tax expense (benefit)		13,163		1,755		6,380		(1,282)
Equity in loss (income) of unconsolidated affiliates, net of tax		1		(67)		1,116		1,612
Net (loss) income	$	(36,923)	$	2,171	$	(48,274)	$	(4,246)
Other comprehensive (loss) income, net of tax:								
Unrealized gain on interest rate swaps				(271)				(220)
Comprehensive (loss) income	$	(36,923)	$	2,442	$	(48,274)	$	(4,026)
Net (loss) income per share-basic	$	(1.18)	$	0.07	$	(1.55)	$	(0.14)
Net (loss) income per share-diluted	$	(1.18)	$	0.07	$	(1.55)	$	(0.14)
Weighted average common shares outstanding:								
Basic		31,291,004		30,840,691		31,179,049		30,793,822
Diluted		31,291,004		30,840,691		31,179,049		30,793,822

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)

	Nine months ended September 30,	
	2009 (As restated)	2008
Operating activities:		
Net loss	$ (48,274)	$ (4,246)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	42,352	34,755
Bad debt expense	642	65
Non-cash employee compensation and professional fees expense	829	(7)
Loss on disposition of property	202	19
Asset impairment loss	24,000	
Gain on sale of unconsolidated affiliate	(962)	
Equity in losses of unconsolidated affiliates	965	2,620
Deferred tax expense (benefit)	6,535	(2,290)
Changes in operating assets and liabilities:		
Accounts receivable and other assets	(7,711)	(3,855)
Accounts payable, accrued expenses and other liabilities	(4,522)	204
Net cash provided by operating activities	14,056	27,265
Investing activities:		
Capital expenditures for property and equipment	(48,206)	(98,811)
Loan repayment from unconsolidated affiliates	8,833	2,500
Investments in unconsolidated affiliates	(303)	(9,823)
Proceeds from sale of interest in unconsolidated affiliate	6,000	
Investment in development	978	(2,288)
Proceeds from sale of assets	66	
Decrease in restricted cash	161	58
Increase in escrows	(1,866)	(607)
Net cash used in investing activities	(34,337)	(108,971)
Financing activities:		
Principal payments on long-term debt	(5,151)	(56,667)
Proceeds from issuance of long-term debt	51,051	149,663
Payment of loan costs	(11,856)	(4,003)
Net cash provided by financing activities	34,044	88,993

Net increase in cash and cash equivalents	13,763	7,287
Cash and cash equivalents, beginning of period	14,231	18,597
Cash and cash equivalents, end of period	$ 27,994	$ 25,884
Supplemental Cash Flow Information:		
Cash paid for interest, net of capitalized interest	$ 24,254	$ 20,381
Cash paid for income taxes, net of refunds	$ 379	$ 365
Non-cash items:		
Construction in process accruals	$ 15	$ 10,180

See accompanying notes to the condensed consolidated financial statements.

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

1. ORGANIZATION

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

Business Summary

We are a family entertainment resort company. We are the largest licensor, 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 300 to 600 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.

We earn revenues through the sale of rooms, which includes admission to our indoor waterpark, and other revenue-generating resort amenities. Each of our resorts features a combination of the following revenue-generating amenities: themed restaurants, ice cream shop and confectionery, full-service 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 resorts. As of September 30, 2009, we operate and/or license eleven Great Wolf Lodge resorts (our signature Northwoods-themed resorts), and one Blue Harbor Resort (a nautical-themed property).

	Ownership Percentage	Opened	Number of Guest Suites	Number of Condo Units (1)	Indoor Entertainment Area (2) (Approx. ft^2)
Wisconsin Dells, WI (3)		1997	308	77	102,000
Sandusky, OH (3)		2001	271		41,000
Traverse City, MI	100%	2003	280		57,000
Kansas City, KS	100%	2003	281		57,000
Sheboygan, WI	100%	2004	182	64	54,000
Williamsburg, VA	100%	2005	405		87,000
Pocono Mountains, PA	100%	2005	401		101,000
Niagara Falls, ONT (4)		2006	406		104,000
Mason, OH	100%	2006	401		105,000
Grapevine, TX (5)	100%	2007	605		110,000
Grand Mound, WA (6)	49%	2008	398		74,000
Concord, NC	100%	March 2009	402		97,000

(1) Condominium units are individually owned by third parties and are

managed by us.

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

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(3) These properties are owned by CNL Lifestyle Properties, Inc. (CNL), a real estate investment trust focused on leisure and lifestyle properties. Prior to August 2009, these properties were owned by a joint venture between CNL and us. In August 2009 we sold our 30.26% joint venture interest to CNL for $6,000. We currently manage both properties and license the Great Wolf Lodge brand to these resorts.

(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 managed the resort on behalf of Ripley through April 2009.

(5)

In late 2007, we began construction on an additional 203 suites and 20,000 square feet of meeting space as an expansion of this resort. The meeting space, along with 92 rooms, was opened in December 2008, with the rest of the rooms completed and opened in January 2009.

(6) This property is owned by a joint venture. The Confederated Tribes of the Chehalis Reservation (Chehalis) owns a 51% interest in the joint venture, and we own a 49% interest. We operate the property and license the Great Wolf Lodge brand to the property under long-term agreements through April 2057, subject to earlier termination in certain situations. The joint venture leases the land for the resort from the United

States
Department of
Interior, which is
trustee for
Chehalis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General We have prepared these unaudited condensed consolidated interim financial statements according to the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, we have omitted certain information and footnote disclosures that are normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The December 31, 2008 consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles. 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, 2008.

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

Certain 2008 amounts have been reclassified to conform to the 2009 presentation. A reclassification of accounts payable unconsolidated affiliates which was initially included in accrued expenses unconsolidated affiliates occurred in the condensed consolidated balance sheet as well as a reclassification of bad debt expense that was initially included in accounts receivable and other assets in the condensed consolidated statements of cash flow.

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 Unconsolidated Affiliates We use the equity method to account for our investment in our unconsolidated joint venture, as we do not have a controlling interest. Net income or loss is allocated between the partners in the joint ventures based on the hypothetical liquidation at book value method (HLBV). Under the HLBV

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method, net income or loss is allocated between the partners based on the difference between each partner s claim on the net assets of the partnership at the end and beginning of the period, after taking into account contributions and distributions. Each partner s share of the net assets of the partnership is calculated as the amount that the partner would receive if the partnership were to liquidate all of its assets at net book value and distribute the resulting cash to creditors and partners in accordance with their respective priorities. Periodically we may make advances to our affiliates.

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.

We recorded a valuation allowance of $23,265 during the period ended September 30, 2009, due to uncertainties related to our ability to utilize some of our deferred tax assets, primarily consisting of certain net operating loss carryforwards, before they expire. In the period ended September 30, 2009, we determined that due to current conditions in the credit markets, real estate markets and our current financial position, the tax planning strategy we previously expected to generate substantial taxable income was no longer feasible. The valuation allowance is based on our estimates of taxable income solely from the reversal of existing deferred tax liabilities and the period over which deferred tax assets reverse. In the event that actual results differ from these estimates or we adjust these estimates in a future period, we may need to increase or decrease our valuation allowance, which could materially impact our consolidated statement of operations.

Fair Value of Financial Instruments We include disclosures in the notes to our financial statements on the fair value of financial instruments whenever summarized financial information for interim reporting periods is presented. The carrying amounts related to cash and cash equivalents, other current assets, escrows, accounts payable, gift certificates payable and accrued expenses approximate fair value due to the relatively short maturities of such instruments.

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Comprehensive Income We record the effective portion of the interest rate 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.

Segments We have two reportable segments:

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

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

The following summarizes significant financial information regarding our segments:

	Resort Ownership/ Operation	Resort Third-Party Management/License	Other	Totals per Financial Statements
Three months ended September 30, 2009				
Revenues	$ 69,424	$ 7,403	$	$ 76,827
Depreciation and amortization	(14,932)		(204)	(15,136)
Asset impairment loss	(24,000)			(24,000)
Operating (loss) income	(17,757)	1,828	438	(15,491)
Gain on sale of unconsolidated affiliate			(962)	(962)
Investment income affiliates				(310)
Interest income				(131)
Interest expense				9,671
Loss before income taxes and equity in income of unconsolidated affiliates				$ (23,759)
Additions to long-lived assets	2,215		145	$ 2,360

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