Great Wolf Resorts, Inc.
Form 10-Q
August 09, 2005

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

FORM 10-Q

(Mark One)

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

For the Quarterly period ended June 30, 2005

OR

o **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	**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)*

Registrant s telephone number, including area code
608 661-4700

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 þ

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

The number of shares outstanding of the issuer s common equity was 30,262,308 as of August 8, 2005.

Great Wolf Resorts, Inc.
Quarterly Report on Form 10-Q
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PART II. OTHER INFORMATION

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PART I. FINANCIAL INFORMATION

ITEM 1. ***FINANCIAL STATEMENTS***

GREAT WOLF RESORTS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	June 30, 2005 (Unaudited)	December 31, 2004
	(Dollars in thousands, except per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 34,275	$ 81,417
Accounts receivable, net of allowance for doubtful accounts of $85 and $183	1,179	881
Inventory	2,590	1,848
Other current assets	7,335	3,921
Total current assets	45,379	88,067
Property and equipment, net	350,972	275,758
Other assets	10,914	9,862
Goodwill	202,263	218,727
Total assets	$609,528	$592,414
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,680	$ 27,794
Accounts payable	16,771	31,506
Accrued expenses	7,925	10,075
Advance deposits	4,864	3,129
Other current liabilities	3,827	2,138
Total current liabilities	35,067	74,642
Long-term debt	155,158	102,813
Other long-term debt	12,190	12,058
Other long-term liabilities	391	391
Deferred tax liability	20,534	11,298
Deferred compensation liability	2,725	2,891
Total liabilities	226,065	204,093
Commitments and contingencies		
Stockholders Equity:		
Common stock, $0.01 par value, 250,000,000 shares authorized, 30,262,308 shares issued and outstanding	303	303
Additional paid in capital	394,060	394,060
Preferred stock, $0.01 par value, 10,000,000 shares authorized, no shares issued or outstanding		
Accumulated deficit	(8,700)	(3,842)
Shares of common stock held in deferred compensation plan	(2,200)	(2,200)

Total stockholders equity	383,463	388,321
Total liabilities and stockholders equity	$609,528	$592,414

See accompanying notes to condensed consolidated and combined financial statements.

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GREAT WOLF RESORTS, INC. AND SUBSIDIARIES AND
GREAT LAKES PREDECESSOR
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF OPERATIONS

	Great Wolf Resorts, Inc.	Predecessor	Great Wolf Resorts, Inc.	Predecessor
	Three months ended June 30,		Six months ended June 30,	
	2005	2004	2005	2004
	(Unaudited, dollars in thousands, except per share data)			
Revenues:				
Rooms	$ 17,023	$ 7,441	$ 35,099	$ 14,684
Food and beverage	4,576	1,937	9,334	3,724
Other resort operations	4,433	1,845	8,595	3,462
Management fees related parties		304		709
Development and other fees related parties		148		508
	26,032	11,675	53,028	23,087
Other revenue from managed properties		3,669		7,009
Total revenues	26,032	15,344	53,028	30,096
Operating expenses by department:				
Rooms	2,958	1,211	5,596	2,260
Food and beverage	4,228	1,726	7,991	3,187
Other	3,979	1,529	7,247	2,806
Other operating expenses:				
Selling, general and administrative	7,327	3,414	14,565	6,620
Property operating costs	4,346	2,351	10,403	4,138
Depreciation and amortization	5,804	3,198	12,931	5,914
	28,642	13,429	58,733	24,925
Other expenses from managed properties		3,669		7,009
Total operating expenses	28,642	17,098	58,733	31,934
Net operating loss	(2,610)	(1,754)	(5,705)	(1,838)
Interest income	(356)	(83)	(648)	(161)
Interest expense	1,968	1,529	3,024	2,812
Gain on sale of investments				(1,072)
Interest on mandatorily redeemable shares		474		2,166
Minority interests		(47)		(18)
Loss before income taxes	(4,222)	(3,627)	(8,081)	(5,565)
Income tax benefit	(1,689)		(3,223)	
Loss from continuing operations	(2,533)	(3,627)	(4,858)	(5,565)
Income from discontinued operations		815		835

Net loss	$ (2,533)	$ (2,812)	$ (4,858)	$ (4,730)
Basic loss per share	$ (0.08)		$ (0.16)	
Diluted loss per share	$ (0.08)		$ (0.16)	
Weighted average common shares outstanding:				
Basic	30,132,896		30,132,896	
Diluted	30,132,896		30,132,896	

See accompanying notes to condensed consolidated and combined financial statements.

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GREAT WOLF RESORTS, INC. AND SUBSIDIARIES AND
GREAT LAKES PREDECESSOR
CONDENSED CONSOLIDATED AND COMBINED STATEMENTS OF CASH FLOWS

	Great Wolf Resorts, Inc.	Predecessor
	Six months ended June 30,	
	2005	2004
	(Unaudited, dollars in thousands)	
Operating activities:		
Net loss	$ (4,858)	$ (4,730)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	12,931	6,569
Non-cash employee compensation expense	(246)	
Gain on sale of assets		(548)
Gain on sale of investments		(1,072)
Minority interests		91
Deferred tax benefit	(3,223)	
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(4,538)	(2,957)
Accounts payable, accrued expenses and other liabilities	(6,709)	4,269
Net cash (used in) provided by operating activities	(6,643)	1,622
Investing activities:		
Capital expenditures for property and equipment	(65,195)	(55,433)
Proceeds from sale of assets		10,475
Increase in equity escrow		(5,940)
Net cash used in investing activities	(65,195)	(50,898)
Financing activities:		
Principal payments on long-term debt	(49,151)	(1,996)
Proceeds from issuance of long-term debt	75,514	34,639
Payment of loan costs	(1,667)	(2,283)
Member contributions		25,860
Member distributions		(6,804)
Changes in mandatorily redeemable ownership interests		2,166
Net distributions to minority investors		495
Net cash provided by financing activities	24,696	52,077
Net increase (decrease) in cash and cash equivalents	(47,142)	2,801

Cash and cash equivalents, beginning of period	81,417	3,553
Cash and cash equivalents, end of period	$ 34,275	$ 6,354
Supplemental Cash Flow Information-		
Cash paid for interest, net of capitalized interest	$ 2,599	$ 2,755

See accompanying notes to condensed consolidated and combined financial statements.

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GREAT WOLF RESORTS, INC. AND SUBSIDIARIES AND
GREAT LAKES PREDECESSOR
NOTES TO CONDENSED CONSOLIDATED AND COMBINED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts)

1. ORGANIZATION

Background

The terms Great Wolf Resorts, us, we and our are used in this report to refer to Great Wolf Resorts, Inc. Throug our controlling interest in GWR Operating Partnership, L.L.L.P., or the Operating Partnership, and the subsidiaries of the Operating Partnership, we develop, own and operate family entertainment resorts under the Great Wolf Lodge and Blue Harbor Resort brand names.

We were formed to succeed to certain businesses of the Great Lakes Predecessor (the Predecessor), which was not a legal entity but rather a combination of numerous entities. The Predecessor consisted of the following, all of which were under common management:

- The Great Lakes Companies, Inc. (GLC), and its consolidated subsidiaries;
- Great Wolf Lodge of Traverse City, LLC;
- Great Wolf Lodge of Kansas City, LLC;
- Blue Harbor Resort Sheboygan, LLC;
- Great Wolf Lodge of Williamsburg, LLC; and
- Great Wolf Lodge of the Poconos, LLC.

The Predecessor financial statements did not include entities that owned Great Wolf Lodge resorts in Wisconsin Dells, Wisconsin and Sandusky, Ohio. These entities, although they were managed by GLC, were controlled by affiliates of AIG SunAmerica, Inc.

The Predecessor had developed and operated hotels and multifamily housing projects since 1995. In 1999 the Predecessor began its resort operations by purchasing the Great Wolf Lodge in Wisconsin Dells, Wisconsin and developing the Great Wolf Lodge in Sandusky, Ohio, which opened in 2001. In 2003 the Predecessor opened two additional Great Wolf Lodge resorts, one in Traverse City, Michigan and the other in Kansas City, Kansas. In 2004 the Predecessor opened the Blue Harbor Resort in Sheboygan, Wisconsin. Additionally in 2004, the Predecessor had two additional Great Wolf Lodge resorts under construction, one in Williamsburg, Virginia and the other in the Pocono Mountains region of Pennsylvania, and had licensed a resort owned by a third party that was under construction in Niagara Falls, Ontario (Canada).

We were incorporated in May 2004 as a Delaware corporation in anticipation of the initial public offering of our common stock (the IPO). The IPO closed on December 20, 2004, concurrently with the completion of various formation transactions (the Formation Transactions).

Pursuant to the Formation Transactions:

- The Predecessor contributed its hotel management and multifamily housing management and development assets, which were unrelated to the resort business, to two subsidiaries of the Predecessor and then distributed the interests in those subsidiaries to the former shareholders of GLC.

- We effected, through our Operating Partnership, the acquisition of GLC and each resort-owning entity. Pursuant to these acquisitions, investors of GLC and the resort-owning entities received cash, unregistered shares of our common stock or a combination of cash and unregistered shares of our common stock. We issued 13,901,947 shares of our common stock and paid approximately $97,600 in cash in connection with these acquisitions.

- We issued an aggregate of 130,949 shares of unregistered common stock to holders of tenant in common interests in two of our resorts.

These transactions consolidated the ownership of our resort properties and property interests to Great Wolf Resorts. During the period from our formation until we commenced operations upon closing of the IPO on December 20, 2004, we did not have any material corporate activity.

The IPO consisted of the sale of 16,100,000 shares of common stock at a price per share of $17.00, generating gross proceeds of $273,700. The net proceeds to us were approximately $248,700 after deducting an aggregate of $19,200 in underwriting discounts and commissions paid to the underwriters and $5,800 in other expenses directly related to the issuance of common stock (such as professional fees and printing fees) incurred in connection with the IPO.

In March 2005, we opened our Great Wolf Lodge resort in Williamsburg, Virginia. As of June 30, 2005, we own and operate five Great Wolf Lodge resorts, our signature northwoods-themed resorts, and one Blue Harbor Resort, a nautical-themed property. In addition, we own one Great Wolf Lodge resort in the Pocono Mountains, Pennsylvania that we are developing and that is under construction and scheduled to open in Fall 2005. We are also the licensor and manager of an additional Great Wolf Lodge resort in Niagara Falls, Ontario that is owned and under development by an affiliate of Ripley Entertainment Inc., or Ripley s.

As of June 30, 2005, we are engaged in the following development activities:

§ On May 4, 2005, we announced a joint venture with Paramount Parks, Inc., a unit of Viacom Inc., to develop a 39-acre, $100,000+ Great Wolf Lodge resort and conference center at Paramount s Kings Island in Mason, Ohio. We will operate the resort under our Great Wolf Lodge brand and will maintain a majority of the equity position in the project. Paramount will have a minority equity interest in the development by contributing the land needed for the resort. The resort will have 401 suites and a comprehensive package of first-class destination lodging amenities and activities. Construction on the resort began in July 2005, with opening slated for late 2006.

§ On June 14, 2005, we announced plans to develop an additional 100 guest suites at our Williamsburg resort. The planned expansion also includes multiple new attractions within the waterpark. Construction for the expansion is scheduled to start in Fall 2005 with expected completion in Fall 2006.

§ On June 29, 2005, we announced a joint venture with The Confederated Tribes of the Chehalis Reservation, to develop a 39-acre, $80,000+ Great Wolf Lodge resort and conference center in Chehalis, Washington. We will operate the resort under our Great Wolf Lodge brand, The Confederated Tribes of the Chehalis Reservation will contribute the land needed for the resort, and they will have a minority equity interest in the joint venture. Construction on the resort is scheduled to begin in Fall 2005 with expected completion in late 2006.

§ At June 30, 2005, we had 77 individually owned condominium units under construction at our Wisconsin Dells resort. Expected completion of the condominium units is July/August 2005. Also, in June 2005, our Wisconsin Dells resort began construction of a 35,000 square foot expansion to its waterpark. Expected completion of the waterpark expansion is Spring 2006.

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 the United States of drive-to family resorts

featuring indoor waterparks and other family-oriented entertainment activities. 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 from our resorts. 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 and meeting space. We also expect to generate revenues from licensing arrangements, management fees and construction fees with respect to properties owned by third parties, such as the licensing agreement we have entered into and management arrangement we have agreed to enter into with Ripley s in connection with the Great Wolf Lodge resort under construction in Niagara Falls, Ontario.

The following table presents an overview of our portfolio of operating resorts and resorts announced or under construction:

Location	Opened/Target Opening	Rooms	Indoor Entertainment Area(1) (Approx. ft^2)
Existing Resorts:			
Wisconsin Dells, WI	May 1997(2)	309(3)	64,000(4)
Sandusky, OH(5)	March 2001	271	41,000
Traverse City, MI	March 2003	281	51,000
Kansas City, KS	May 2003	281	49,000
Sheboygan, WI(6)	June 2004	183(7)	54,000
Williamsburg, VA	March 2005	301(8)	66,000
Resorts Announced or Under Construction:			
Pocono Mountains, PA	Fall 2005	400	91,000
Niagara Falls, ONT(9)	Spring 2006	404	94,000
Mason, OH (10)	Late 2006	401	92,000
Chehalis, WA(11)	Late 2006	317	65,000

(1) Our indoor entertainment areas generally include our indoor waterpark, game arcade, children s activity room and fitness room, as well as our Aveda concept spa, 3D virtual reality theatre, Wiley s Woods and party room in the resorts that have such

amenities.

(2) We purchased this property in November 1999.

(3) Our Wisconsin Dells property includes an additional 77 individually owned condominium units under construction as of June 30, 2005.

(4) Our Wisconsin Dells property has started a 35,000 square foot expansion of their existing waterpark. Construction on the expansion began in June 2005 with expected completion in the Spring 2006.

(5) Prior to May 2004 we operated this resort as a Great Bear Lodge.

(6) Our Sheboygan property is branded as a Blue Harbor Resort. This resort is subject to a 98-year and 11-month ground lease with the Redevelopment Authority of the City of Sheboygan.

(7) Our Sheboygan resort includes an additional 64 individually owned condominium units.

(8) Our Williamsburg property will be adding an additional 100 guest suites. Construction for the expansion is scheduled to start in Fall 2005 with expected completion in Fall 2006.

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(9) Ripley s, our licensee, owns this resort. We are assisting Ripley s with construction management and other pre-opening matters related to the Great Wolf Lodge in Niagara Falls. We have granted Ripley s a license to use the Great Wolf Lodge name for this resort and other intellectual property for ten years after opening. We have agreed to enter into a management agreement, pursuant to which we expect to operate the resort on behalf of Ripley s for five years, and a central reservations agreement. In conjunction with this project, we will receive a one-time construction fee and ongoing license, central reservation and management fees.

(10) We have entered into a joint venture with Paramount Parks, Inc., a unit of Viacom Inc. to build this resort. We will operate the resort under our Great Wolf Lodge brand and will maintain a majority of the equity position in the project. Paramount will have a minority equity interest in the development by contributing the land needed for the resort. Construction on the resort began in July 2005 with expected completion in late 2006.

(11) We have entered into a joint venture with The Confederated Tribes of the Chehalis Reservation. We will operate the resort under our Great Wolf Lodge brand. The Confederated Tribes of the Chehalis Reservation will contribute the

land needed for the resort, and they will have a minority equity interest in the joint venture. Construction on the resort is scheduled to begin in Fall 2005 with expected completion in late 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General We have prepared these unaudited 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, 2004. Certain 2004 amounts have been reclassified to conform with the 2005 presentation. The amounts reflected in the combined statement of operations for the three and six months ended June 30, 2004, have been adjusted to include the effect of consolidating Historic Hollywood Hillview LLC. The impact of the adjustment was to decrease net loss by approximately $1.3 million.

In our opinion, the accompanying unaudited condensed consolidated and combined 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 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.

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.

Stock Based Compensation We have issued stock options under our 2004 Incentive Stock Plan. As permitted under Statement of Financial Accounting Standards No. 123, Accounting for Stock Based Compensation, we have elected to account for such options in accordance with APB Opinion No. 25 (APB 25), Accounting for Stock Issued to Employees. Under APB 25, the total compensation expense recognized is equal to the difference between the award s exercise price and the underlying stock s market price at the measurement date. Our stock options were granted with an exercise price equal to their fair market value; therefore no compensation expense was recorded in the six months ended June 30, 2005. Had compensation costs been determined under the fair value method as set forth in SFAS 123, our pro forma net loss and net loss per share for the three months and six months ended June 30, 2005 would have been as follows:

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	Three months ended June 30, 2005	Six months ended June 30, 2005
Net loss, as reported	$ (2,533)	$ (4,858)
Compensation expense, SFAS 123 fair value method	(359)	(687)
Pro forma net loss	$ (2,892)	$ (5,545)
Pro forma net loss per share Basic	$ (0.10)	$ (0.18)
Pro forma net loss per share Diluted	$ (0.10)	$ (0.18)

The weighted average fair value for the options granted is $5.14 for the three months ended June 30, 2005. The SFAS 123 fair value of options granted in the three months ended June 30, 2005, was estimated using a Black-Scholes option-pricing model with the following assumptions:

	Three months ended June 30, 2005
Dividend yield	
Weighted-average, risk free interest rate	3.65%
Weighted-average, expected life of option	6.0 years
Expected stock price volatility	40%

Segments We view our operations as principally one segment, and the financial information disclosed herein represents all of the financial information related to our principal segment.

Recent Accounting Pronouncements In December 2004 the FASB issued Statement No. 123 (revised 2004), Share-Based Payment (SFAS 123R), which requires companies to expense the value of employee stock options, discounts on employee stock purchase plans and similar awards. Under SFAS 123R, share-based payment awards result in compensation expense that will be measured at fair value on the awards grant date, based on the estimated number of awards that are expected to vest. SFAS 123R is effective for periods beginning the first fiscal year after June 15, 2005, and applies to all outstanding and unvested share-based payment awards at the adoption date. We have not completed our evaluation of the impact of adopting SFAS 123R.

3. PURCHASE ACCOUNTING IN CONNECTION WITH THE IPO

The IPO closed on December 20, 2004. In conjunction with the Formation Transactions completed on that date, we issued a total of 14,032,896 shares of our common stock. We also paid cash of approximately $97,600 to buy-out certain investors in the resort-owning entities and interests held by AIG SunAmerica, Inc. in the Wisconsin Dells and Sandusky entities.

We recorded the Formation Transactions by applying the purchase method of accounting in connection with our acquisition of the seven resort-owning entities. In conjunction with purchase accounting we:

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

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

- Eliminated mandatorily redeemable interests of the Predecessor due to the conversion of those ownership interests to our common stock in conjunction with the Formation Transactions; and

Recorded as goodwill the excess of consideration in the purchase transaction over the fair value of net tangible assets acquired from the seven resort-owning entities.

As a result of this process, we had $218,727 of goodwill at December 31, 2004, all of which related to the application of purchase accounting in conjunction with the Formation Transactions. Some of the values and amounts used in the initial application of purchase accounting for our consolidated balance sheet were based on preliminary estimates and assumptions. In 2005, we continued to refine and finalize these estimates and assumptions. During the three months ended March 31, 2005, we recorded adjustments to the estimated fair market values of property and equipment acquired, resulting in an increase to property and equipment of $30,700, an increase to accrued expenses of $301, an increase in deferred tax liability of $12,059, and a decrease in goodwill of $18,340. During the three months ended June 30, 2005, we recorded adjustments to the estimated fair market values of property and equipment acquired, resulting in a decrease to property and equipment of $3,012, an increase to accrued expenses of $69, a decrease in deferred tax liability of $1,205, and an increase in goodwill of $1,876.

We expect to continue our process of refining and finalizing our purchase accounting estimates and assu