MORGAN STANLEY
Form FWP
May 02, 2019

May 2019

Preliminary Terms No. 1,937

Registration Statement Nos. 333-221595; 333-221595-01

Dated May 2, 2019

Filed pursuant to Rule 433

Morgan Stanley Finance LLC

Structured Investments

Opportunities in U.S. and International Equities

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Fully and Unconditionally Guaranteed by Morgan Stanley

Principal at Risk Securities

The securities offered are unsecured obligations of Morgan Stanley Finance LLC ("MSFL"), fully and unconditionally guaranteed by Morgan Stanley, and have the terms described in the accompanying product supplement, index supplement and prospectus, as supplemented or modified by this document. The securities do not guarantee the repayment of principal and do not provide for the regular payment of interest. Beginning after six months, the securities will be automatically redeemed if the index closing value of **each** of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠, which we refer to as the underlying indices, on any of the quarterly determination dates is greater than or equal to its respective initial index value, for an early redemption payment that will increase over the term of the securities, as described below. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final index value of each underlying index is **greater than or equal to** its respective initial index value, investors will receive a payment at maturity of between $1,500 and $1,550 per $1,000 security (to be determined on the pricing date). If the securities have not previously been redeemed and the final index value of **either underlying index is less than** its respective initial index value but the final index value of **each underlying index is greater than or equal to** 60% of its respective initial index value, which we refer to as the respective downside threshold level, investors will receive the stated principal amount of their investment. However, if the securities are not redeemed prior to maturity and the final index value of **either underlying index is** less than its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying index on a 1-to-1 basis, and will receive a payment at maturity that is less than 60% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.** These long-dated securities are for investors who are willing to forego current income and participation in the appreciation of either underlying index in exchange for the possibility of receiving an early redemption payment or payment at maturity greater than the

stated principal amount if each underlying index closes at or above the initial index value on a quarterly determination date. Because all payments on the securities are based on the worst performing of the underlying indices, a decline beyond the respective downside threshold level of either underlying index will result in a significant loss of your investment, even if the other underlying index has appreciated or has not declined as much. Investors will not participate in any appreciation of either underlying index. The securities are notes issued as part of MSFL's Series A Global Medium-Term Notes program.

All payments are subject to our credit risk. If we default on our obligations, you could lose some or all of your investment. These securities are not secured obligations and you will not have any security interest in, or otherwise have any access to, any underlying reference asset or assets.

SUMMARY TERMS	
Issuer:	Morgan Stanley Finance LLC
Guarantor:	Morgan Stanley
Underlying indices:	EURO STOXX 50® Index (the "SX5E Index") and Dow Jones Industrial Average℠ (the "INDU Index")
Aggregate principal amount:	$
Stated principal amount:	$1,000 per security
Issue price:	$1,000 per security
Pricing date:	May 29, 2019
Original issue date:	May 31, 2019 (2 business days after the pricing date)
Maturity date:	May 31, 2024
Early redemption:	The securities are not subject to automatic early redemption until approximately six months after the original issue date. Following this initial 6-month non-call period, if, on any quarterly determination date, beginning on November 29, 2019, the index closing value of **each** underlying index is **greater than or equal to** its respective initial index value, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date. **The securities will not be redeemed early on any early redemption date if the index closing value of either underlying index is below its respective initial index value on the related determination date.**
Early redemption payment:	The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 10.00% to 11.00% *per annum*, to be determined on the pricing date) for each quarterly determination date, as set forth under "Determination Dates, Early Redemption Dates and Early Redemption Payments" below.

	No further payments will be made on the securities once they have been redeemed.
Determination dates:	Beginning after six months, quarterly. See "Determination Dates, Early Redemption Dates and Early Redemption Payments" below. The determination dates are subject to postponement for non-index business days and certain market disruption events.
Early redemption dates:	The third business day after the relevant determination date. See "Determination Dates, Early Redemption Dates and Early Redemption Payments (Beginning After Six Months)" below. If any such day is not a business day, the early redemption payment, if payable, will be paid on the next business day, and no adjustment will be made to the early redemption payment.
Downside threshold level:	With respect to the SX5E Index, , which is 60% of its initial index value With respect to the INDU Index, , which is 60% of its initial index value
Payment at maturity:	If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows: · If the final index value of **each underlying index** is **greater than or equal to** its respective initial index value: $1,500 to $1,550 (to be determined on the pricing date) · If the final index value of **either underlying index is less than** its respective initial index value but the final index value of **each underlying index is greater than or equal to** its respective downside threshold level: $1,000 · If the final index value of **either underlying index** is **less than** its respective downside threshold level: $1,000 × index performance factor of the worst performing underlying index **Under these circumstances, you will lose more than 40%, and possibly all, of your investment.**
	Terms continued on the following page
Agent:	Morgan Stanley & Co. LLC ("MS & Co."), an affiliate of MSFL and a wholly owned subsidiary of Morgan

	Stanley. See “Supplemental information regarding plan of distribution; conflicts of interest.”
Estimated value on the pricing date:	Approximately $959.90 per security, or within $30.00 of that estimate. See “Investment Summary” beginning on page 3.

Commissions and issue price:	**Price to public**	**Agent’s commissions[1]**	**Proceeds to us[2]**
Per security	$1,000	$	$
Total	$	$	$

(1) Selected dealers and their financial advisors will collectively receive from the agent, Morgan Stanley & Co. LLC, a fixed sales commission of $ for each security they sell. See “Supplemental information regarding plan of distribution; conflicts of interest.” For additional information, see “Plan of Distribution (Conflicts of Interest)” in the accompanying product supplement.

(2) See “Use of proceeds and hedging” on page 22.

The securities involve risks not associated with an investment in ordinary debt securities. See “Risk Factors” beginning on page 11.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved these securities, or determined if this document or the accompanying product supplement, index supplement and prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The securities are not deposits or savings accounts and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency or instrumentality, nor are they obligations of, or guaranteed by, a bank.

You should read this document together with the related product supplement, index supplement and prospectus, each of which can be accessed via the hyperlinks below. Please also see “Additional Terms of the Securities” and “Additional Information About the Securities” at the end of this document.

As used in this document, “we,” “us” and “our” refer to Morgan Stanley or MSFL, or Morgan Stanley and MSFL collectively, as the context requires.

Product Supplement for Auto-Callable Securities dated November 16, 2017 **Index Supplement dated November 16, 2017** **Prospectus dated November 16, 2017**

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

Terms continued from previous page:

Initial index value:	With respect to the SX5E Index, , which is its index closing value on the pricing date With respect to the INDU Index, , which is its index closing value on the pricing date
Final index value:	With respect to each underlying index, the respective index closing value on the final determination date
Worst performing underlying index:	The underlying index with the larger percentage decrease from the respective initial index value to the respective final index value
Index performance factor:	With respect to each underlying index, the final index value *divided by* the initial index value
CUSIP / ISIN:	61769HAN5 / US61769HAN52
Listing:	The securities will not be listed on any securities exchange.

Determination Dates, Early Redemption Dates and Early Redemption Payments (Beginning After Six Months)

Determination Dates		Early Redemption Dates	Early Redemption Payments (per $1,000 Security)*
1st determination date:	11/29/2019	12/3/2019	$1,050.00 to $1,055.00
2nd determination date:	2/28/2020	3/3/2020	$1,075.00 to $1,082.50
3rd determination date:	5/29/2020	6/2/2020	$1,100.00 to $1,110.00
4th determination date:	8/31/2020	9/2/2020	$1,125.00 to $1,137.50
5th determination date:	11/30/2020	12/2/2020	$1,150.00 to $1,165.00
6th determination date:	2/26/2021	3/2/2021	$1,175.00 to $1,192.50
7th determination date:	5/28/2021	6/2/2021	$1,200.00 to $1,220.00
8th determination date:	8/30/2021	9/1/2021	$1,225.00 to $1,247.50
9th determination date:	11/29/2021	12/1/2021	$1,250.00 to $1,275.00

10th determination date:	2/28/2022	3/2/2022	$1,275.00 to $1,302.50
11th determination date:	5/31/2022	6/2/2022	$1,300.00 to $1,330.00
12th determination date:	8/29/2022	8/31/2022	$1,325.00 to $1,357.50
13th determination date:	11/29/2022	12/1/2022	$1,350.00 to $1,385.00
14th determination date:	2/28/2023	3/2/2023	$1,375.00 to $1,412.50
15th determination date:	5/30/2023	6/1/2023	$1,400.00 to $1,440.00
16th determination date:	8/29/2023	8/31/2023	$1,425.00 to $1,467.50
17th determination date:	11/29/2023	12/1/2023	$1,450.00 to $1,495.00
18th determination date:	2/29/2024	3/4/2024	$1,475.00 to $1,522.50
Final determination date:	5/29/2024	5/31/2024	See “Payment at maturity” above.

*The actual early redemption payment with respect to each determination date will be determined on the pricing date and will be an amount in cash per stated principal amount corresponding to a return of approximately 10.00% to 11.00% per annum.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

Investment Summary

Jump Securities with Auto-Callable Feature

Principal at Risk Securities

The Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠ (the "securities") do not provide for the regular payment of interest. Instead, beginning after six months, the securities will be automatically redeemed if the index closing value of **each of** the EURO STOXX 50® Index and the Dow Jones Industrial Average℠ on any quarterly determination date is greater than or equal to its respective initial index value, for an early redemption payment that will increase over the term of the securities, as described below. No further payments will be made on the securities once they have been redeemed. At maturity, if the securities have not previously been redeemed and the final index value of each underlying index is **greater than or equal to** its respective initial index value, investors will receive a payment at maturity of between $1,500 and $1,550 per $1,000 security (to be determined on the pricing date). If the securities have not previously been redeemed and the final index value of **either** underlying index is **less than** its respective initial index value but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level, investors will receive the stated principal amount of their investment. However, if the securities are not redeemed prior to maturity and the final index value of **either underlying index is** less than its respective downside threshold level, investors will be exposed to the decline in the worst performing underlying index on a 1-to-1 basis, and will receive a payment at maturity that is less than 60% of the stated principal amount of the securities and could be zero. **Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.** Investors will not participate in any appreciation in either underlying index.

Maturity:	5 years
Automatic early redemption (beginning after six months):	The securities are not subject to automatic early redemption until approximately six months after the original issue date. Following this initial 6-month non-call period, if, on any quarterly determination date, the index closing value of each underlying index is greater than or equal to its respective initial index value, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date.
Early redemption payment:	The early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 10.00% to 11.00% per annum, to be determined on

the pricing date) for each quarterly determination date (beginning after six months), as follows*:

- 1st determination date: $1,050.00 to $1,055.00
- 2nd determination date: $1,075.00 to $1,082.50
- 3rd determination date: $1,100.00 to $1,110.00
- 4th determination date: $1,125.00 to $1,137.50
- 5th determination date: $1,150.00 to $1,165.00
- 6th determination date: $1,175.00 to $1,192.50
- 7th determination date: $1,200.00 to $1,220.00
- 8th determination date: $1,225.00 to $1,247.50
- 9th determination date: $1,250.00 to $1,275.00
- 10th determination date: $1,275.00 to $1,302.50
- 11th determination date: $1,300.00 to $1,330.00
- 12th determination date: $1,325.00 to $1,357.50
- 13th determination date: $1,350.00 to $1,385.00
- 14th determination date: $1,375.00 to $1,412.50

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

	· 15th determination date: $1,400.00 to $1,440.00 · 16th determination date: $1,425.00 to $1,467.50 · 17th determination date: $1,450.00 to $1,495.00 · 18th determination date: $1,475.00 to $1,522.50 *The actual early redemption payment with respect to each applicable determination date will be determined on the pricing date. No further payments will be made on the securities once they have been redeemed.
Payment at maturity:	If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows: · If the final index value of **each** underlying index is **greater than or equal to** its respective initial index value: $1,500 to $1,550 (to be determined on the pricing date) · If the final index value of **either** underlying index is **less than** its respective initial index value but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level: $1,000 · If the final index value of **either** underlying index is **less than** its respective downside threshold level: $1,000 × index performance factor of the worst performing underlying index **Under these circumstances, investors will lose a significant portion or all of their investment. Accordingly, investors in the securities must be willing to accept the risk of losing their entire initial investment.**

The original issue price of each security is $1,000. This price includes costs associated with issuing, selling, structuring and hedging the securities, which are borne by you, and, consequently, the estimated value of the securities on the pricing date will be less than $1,000. We estimate that the value of each security on the pricing date will be approximately $959.90, or within $30.00 of that estimate. Our estimate of the value of the securities as determined on

the pricing date will be set forth in the final pricing supplement.

What goes into the estimated value on the pricing date?

In valuing the securities on the pricing date, we take into account that the securities comprise both a debt component and a performance-based component linked to the underlying indices. The estimated value of the securities is determined using our own pricing and valuation models, market inputs and assumptions relating to the underlying indices, instruments based on the underlying indices, volatility and other factors including current and expected interest rates, as well as an interest rate related to our secondary market credit spread, which is the implied interest rate at which our conventional fixed rate debt trades in the secondary market.

What determines the economic terms of the securities?

In determining the economic terms of the securities, including the early redemption payment amounts and the downside threshold levels, we use an internal funding rate, which is likely to be lower than our secondary market credit spreads and therefore advantageous to us. If the issuing, selling, structuring and hedging costs borne by you were lower or if the internal funding rate were higher, one or more of the economic terms of the securities would be more favorable to you.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

What is the relationship between the estimated value on the pricing date and the secondary market price of the securities?

The price at which MS & Co. purchases the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, may vary from, and be lower than, the estimated value on the pricing date, because the secondary market price takes into account our secondary market credit spread as well as the bid-offer spread that MS & Co. would charge in a secondary market transaction of this type and other factors. However, because the costs associated with issuing, selling, structuring and hedging the securities are not fully deducted upon issuance, for a period of up to 6 months following the issue date, to the extent that MS & Co. may buy or sell the securities in the secondary market, absent changes in market conditions, including those related to the underlying indices, and to our secondary market credit spreads, it would do so based on values higher than the estimated value. We expect that those higher values will also be reflected in your brokerage account statements.

MS & Co. may, but is not obligated to, make a market in the securities, and, if it once chooses to make a market, may cease doing so at any time.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

Key Investment Rationale

The securities do not provide for the regular payment of interest. Instead, beginning after six months, the securities will be automatically redeemed if the index closing value of **each of** the EURO STOXX 50® Index and the Dow Jones Industrial Average℠ on any quarterly determination date is greater than or equal to its respective initial index value.

The following scenarios are for illustrative purposes only to demonstrate how an automatic early redemption payment or the payment at maturity (if the securities have not previously been redeemed) are calculated, and do not attempt to demonstrate every situation that may occur. Accordingly, the securities may or may not be redeemed prior to maturity and the payment at maturity may be less than 60% of the stated principal amount of the securities and may be zero.

Scenario 1: The securities are redeemed prior to maturity	Beginning after six months, when each underlying index closes at or above its respective initial index value on any quarterly determination date, the securities will be automatically redeemed for the applicable early redemption payment on the related early redemption date. Investors do not participate in any appreciation in either underlying index.
Scenario 2: The securities are not redeemed prior to maturity, and investors receive a fixed positive return at maturity	This scenario assumes that at least one underlying index closes below its respective initial index value on each of the quarterly determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, each underlying index closes at or above its respective initial index value. At maturity, investors will receive a cash payment equal to between $1,500 and $1,550 per stated principal amount (to be determined on the pricing date). Investors do not participate in any appreciation in either underlying index.
Scenario 3: The securities are not redeemed prior to maturity, and investors receive the stated principal amount at maturity	This scenario assumes that at least one underlying index closes below its respective initial index value on each of the quarterly determination dates. Consequently, the securities are not redeemed prior to maturity. On the final determination date, at least one underlying index closes below its respective initial index value, but the final index value of each underlying index is greater than or equal to its respective downside threshold level. At maturity, investors will receive a cash payment equal to the stated principal amount of $1,000 per security.
Scenario 4: The securities are not	This scenario assumes that at least one underlying index closes below its respective initial index value on each of the quarterly determination dates. Consequently, the securities are

redeemed prior to maturity, and investors suffer a substantial loss of principal at maturity	not redeemed prior to maturity. On the final determination date, at least one underlying index closes below its respective downside threshold level. At maturity, investors will receive an amount equal to the stated principal amount multiplied by the index performance factor of the worst performing underlying index. Under these circumstances, the payment at maturity will be significantly less than the stated principal amount and could be zero.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

Hypothetical Examples

The following hypothetical examples are for illustrative purposes only. Whether the securities are redeemed prior to maturity will be determined by reference to the index closing value of each underlying index on each of the quarterly determination dates (beginning after six months), and the payment at maturity, if any, will be determined by reference to the index closing value of each underlying index on the final determination date. The actual early redemption payment with respect to each applicable determination date, initial index values and downside threshold levels will be determined on the pricing date. Some numbers appearing in the examples below have been rounded for ease of analysis. All payments on the securities are subject to our credit risk. The below examples are based on the following terms:

Hypothetical Early Redemption Payment:	The hypothetical early redemption payment will be an amount in cash per stated principal amount (corresponding to a return of approximately 10.50% *per annum*, the midpoint of the range set forth on the cover of this document) for each quarterly determination date (beginning after six months), as follows:

- 1st determination date: $1,052.50
- 2nd determination date: $1,078.75
- 3rd determination date: $1,105.00
- 4th determination date: $1,131.25
- 5th determination date: $1,157.50
- 6th determination date: $1,183.75
- 7th determination date: $1,210.00
- 8th determination date: $1,236.25
- 9th determination date: $1,262.50
- 10th determination date: $1,288.75
- 11th determination date: $1,315.00
- 12th determination date: $1,341.25
- 13th determination date: $1,367.50

- 14th determination date: $1,393.75
- 15th determination date: $1,420.00
- 16th determination date: $1,446.25
- 17th determination date: $1,472.50
- 18th determination date: $1,498.75

No further payments will be made on the securities once they have been redeemed.

Payment at Maturity	If the securities have not previously been redeemed, you will receive at maturity a cash payment per security as follows: · If the final index value of **each** underlying index is **greater than or equal to** its respective initial index value: $1,525 (the midpoint of the range set forth on the cover of this document; the actual payment at maturity for this scenario will be determined on the pricing date) · If the final index value of **either** underlying index is **less than** its respective initial index value but the final index value of **each** underlying index is **greater than or equal to** its respective downside threshold level: $1,000 · If the final index value of **either** underlying index is **less than** its respective downside

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

	threshold level: $1,000 × index performance factor of the worst performing underlying index. **Under these circumstances, you will lose a significant portion or all of your investment.**
Stated Principal Amount:	$1,000
Hypothetical Initial Index Value:	With respect to the SX5E Index: 3,500 With respect to the INDU Index: 25,500
Hypothetical Downside Threshold Level:	With respect to the SX5E Index: 2,100, which is 60% of its hypothetical initial index value With respect to the INDU Index: 15,300, which is 60% of its hypothetical initial index value

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

Automatic Call:

Example 1 — the securities are redeemed following the second determination date

Date	SX5E Index Closing Value	INDU Index Closing Value	Payment (per Security)
1st Determination Date	4,000 (**at or above** the initial index value)	24,000 (**below** the initial index value)	--
2nd Determination Date	4,500 (**at or above** the initial index value)	26,000 (**at or above** the initial index value)	$1,078.75

In this example, on the first determination date, the index closing value of one of the underlying indices is at or above its respective initial index value, but the index closing value of the other underlying index is below its respective initial index value. Therefore, the securities are not redeemed. On the second determination date, the index closing value of each underlying index is at or above the respective initial index value. Therefore, the securities are automatically redeemed on the second early redemption date. Investors will receive a payment of $1,078.75 per security on the related early redemption date. No further payments will be made on the securities once they have been redeemed, and investors do not participate in the appreciation in either underlying index.

How to calculate the payment at maturity:

In the following examples, one or both of the underlying indices close below the respective initial index value(s) on each of the quarterly determination dates (beginning after six months), and, consequently, the securities are not automatically redeemed prior to, and remain outstanding until, maturity.

SX5E Index Final Index Value	INDU Index Final Index Value

			Payment at Maturity (per Security)
Example 1:	4,000 (**at or above** its initial index value)	25,600 (**at or above** its initial index value)	$1,525
Example 2:	2,800 (**below** its initial index value but **at or above** its downside threshold level)	30,600 (**at or above** its initial index value and downside threshold level)	$1,000
Example 3:	4,375 (**at or above** its initial index value and downside threshold level)	12,750 (**below** its downside threshold level)	$1,000 x (12,750 / 25,500) = $500
Example 4:	700 (**below** its downside threshold level)	19,125 (**below** its initial index value but **at or above** its downside threshold level)	$1,000 x (700 / 3,500) = $200
Example 5:	700 (**below** its downside threshold level)	10,200 (**below** its downside threshold level)	$1,000 x (700 / 3,500) = $200

In example 1, the final index value of each underlying index is at or above its respective initial index value. Therefore, investors receive $1,525 per security at maturity. Investors do not participate in any appreciation in either underlying index.

In example 2, the final index value of one of the underlying indices is at or above its initial index value and downside threshold level, but the final index value of the other underlying index is below its initial index value and at or above its downside threshold level. The INDU Index has increased 20% from its initial index value to its final index value and the SX5E Index has declined 20% from its initial index value to its final index value. Therefore, investors receive a payment at maturity equal to the stated principal amount of $1,000 per security. Investors do not participate in any appreciation in either underlying index.

In example 3, the final index value of one of the underlying indices is at or above its initial index value and downside threshold level, but the final index value of the other underlying index is below its respective downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying index at maturity. The SX5E Index has increased 25% from its initial index value to its final index value and the INDU Index has declined 50% from its initial index value to its final index value. Therefore, investors receive at maturity an amount equal to the stated principal amount times the index performance factor of the INDU Index, which is the worst performing underlying index in this example.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

In example 4, the final index value of one of the underlying indices is below its initial index value but at or above its downside threshold level, while the final index value of the other underlying index is below its respective downside threshold level. Therefore, investors are exposed to the downside performance of the worst performing underlying index at maturity. The INDU Index has declined 25% from its initial index value to its final index value and the SX5E Index has declined 80% from its initial index value to its final index value. Therefore, investors receive at maturity an amount equal to the stated principal amount times the index performance factor of the SX5E Index, which is the worst performing underlying index in this example.

In example 5, the final index value of each underlying index is below its respective downside threshold level, and investors receive at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. The SX5E Index has declined 80% from its initial index value to its final index value and the INDU Index has declined 60% from its initial index value to its final index value. Therefore, the payment at maturity equals the stated principal amount *times* the index performance factor of the SX5E Index, which is the worst performing underlying index in this example.

If the securities are not redeemed prior to maturity and the final index value of either underlying index is below its respective downside threshold level, you will be exposed to the downside performance of the worst performing underlying index at maturity, and your payment at maturity will be less than 60% of the stated principal amount per security and could be zero.

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

Risk Factors

The following is a list of certain key risk factors for investors in the securities. For further discussion of these and other risks, you should read the section entitled "Risk Factors" in the accompanying product supplement, index supplement and prospectus. We also urge you to consult with your investment, legal, tax, accounting and other advisers in connection with your investment in the securities.

§ **The securities do not pay interest or guarantee the return of any principal.** The terms of the securities differ from those of ordinary debt securities in that they do not pay interest or guarantee the return of any of the principal amount at maturity. If the securities have not been automatically redeemed prior to maturity and the final index value of **either underlying index** is less than its respective downside threshold level of 60% of its initial index value, you will be exposed to the decline in the value of the worst performing underlying index, as compared to its initial index value, on a 1-to-1 basis, and you will receive for each security that you hold at maturity an amount equal to the stated principal amount *times* the index performance factor of the worst performing underlying index. In this case, the payment at maturity will be less than 60% of the stated principal amount and could be zero.

§ **The appreciation potential of the securities is limited by the fixed early redemption payment or payment at maturity specified for each determination date.** The appreciation potential of the securities is limited to the fixed early redemption payment specified for each determination date if each underlying index closes at or above its respective initial index value on any quarterly determination date, or to the fixed upside payment at maturity if the securities have not been redeemed and the final index value of each underlying index is at or above its initial index value. In all cases, you will not participate in any appreciation of either underlying index, which could be significant.

§ **You are exposed to the price risk of each underlying index.** Your return on the securities is not linked to a basket consisting of each underlying index. Rather, it will be contingent upon the independent performance of each underlying index. Unlike an instrument with a return linked to a basket of underlying assets, in which risk is mitigated and diversified among all the components of the basket, you will be exposed to the risks related to each underlying index. Poor performance by **either underlying index** over the term of the securities may negatively affect your return and will not be offset or mitigated by any positive performance by the other underlying index. To receive an early redemption payment, **each underlying index** must close at or above its respective initial index value on the applicable determination date. In addition, if the securities have not been redeemed and **at least one underlying index** has declined to below its respective downside threshold level as of the final determination date, you will be **fully exposed** to the decline in the worst performing underlying index over the term of the securities on a

1-to-1 basis, even if the other underlying index has appreciated or has not declined as much. Under this scenario, the value of any such payment at maturity will be less than 60% of the stated principal amount and could be zero. Accordingly, your investment is subject to the price risk of each underlying index.

§ **The market price will be influenced by many unpredictable factors.** Several factors, many of which are beyond our control, will influence the value of the securities in the secondary market and the price at which MS & Co. may be willing to purchase or sell the securities in the secondary market. We expect that generally the level of interest rates available in the market and the value of each underlying index on any day, including in relation to its respective initial index value and downside threshold level, will affect the value of the securities more than any other factors. Other factors that may influence the value of the securities include:

o the volatility (frequency and magnitude of changes in value) of the underlying indices,

o geopolitical conditions and economic, financial, political, regulatory or judicial events that affect the component stocks of the underlying indices or securities markets generally and which may affect the value of each underlying index,

o dividend rates on the securities underlying the underlying indices,

o the time remaining until the securities mature,

o interest and yield rates in the market,

o the availability of comparable instruments,

Morgan Stanley Finance LLC

Jump Securities with Auto-Callable Feature due May 31, 2024, with 6-month Initial Non-Call Period

All Payments on the Securities Based on the Worst Performing of the EURO STOXX 50® Index and the Dow Jones Industrial Average℠

Principal at Risk Securities

- o the composition of the underlying indices and changes in the constituent stocks of such indices, and

- o any actual or anticipated changes in our credit ratings or credit spreads.

Some or all of these factors will influence the price that you will receive if you sell your securities prior to maturity. Generally, the longer the time remaining to maturity, the more the market price of the securities will be affected by the other factors described above. For example, you may have to sell your securities at a substantial discount from the stated principal amount of $1,000 per security if the price of either underlying index at the time of sale is near or below its downside threshold level or if market interest rates rise.

You cannot predict the future performance of either underlying index based on its historical performance. The value(s) of one or both of the underlying indices may decrease so that you will receive no return on your investment and receive a payment at maturity that is less than 60% of the stated principal amount. See "EURO STOXX 50® Index Overview" and "Dow Jones Industrial Average℠ Overview" below**.**

§ **The securities are subject to our credit risk, and any actual or anticipated changes to our credit ratings or credit spreads may adversely affect the market value of the securities.** You are dependent on our ability to pay all amounts due on the securities upon an early redemption or at maturity and therefore you are subject to our credit risk. If we default on our obligations under the securities, your investment would be at risk and you could lose some or all of your investment. As a result, the market value of the securities prior to maturity will be affected by changes in the market's view of our creditworthiness. Any actual or anticipated decline in our credit ratings or increase in the credit spreads charged by the market for taking our credit risk is likely to adversely affect the market value of the securities.

§ **As a finance subsidiary, MSFL has no independent operations and will have no independent assets.** As a finance subsidiary, MSFL has no independent operations beyond the issuance and administration of its securities and will have no independent assets available for distributions to holders of MSFL securities if they make claims in respect of such securities in a bankruptcy, resolution or similar proceeding. Accordingly, any recoveries by such holders will be limited to those available under the related guarantee by Morgan Stanley and that guarantee will rank *pari passu* with all other unsecured, unsubordinated obligations of Morgan Stanley. Holders will have recourse only to a single claim against Morgan Stanley and its assets under the guarantee. Holders of securities issued by MSFL should accordingly assume that in any such proceedings they would not have any priority over and should be treated

pari passu with the claims of other unsecured, unsubordinated creditors of Morgan Stanley, including holders of Morgan Stanley-issued securities.

	Totals per Resort Ownership/ Operation	Resort Third-Party Management/License	Other	Financial Statements
Nine months ended September 30, 2009				
Revenues	$ 186,411	$ 21,348	$	$ 207,759
Depreciation and amortization	(41,776)		(576)	(42,352)
Asset impairment loss	(24,000)			(24,000)
Operating (loss) income	(21,416)	5,253	(2,359)	(18,522)
Gain on sale of unconsolidated affiliate			(962)	(962)
Investment income affiliates				(1,030)
Interest income				(467)
Interest expense				24,715
Loss before income taxes and equity in income of unconsolidated affiliates				$ (40,778)
Additions to long-lived assets	47,834		372	$ 48,206
Total assets	741,895	2,218	75,157	$ 819,270

	Resort Ownership/ Operation	Resort Third-Party Management/License	Other	Totals per Financial Statements
Three months ended September 30, 2008				
Revenues	$ 60,841	$ 8,572	$	$ 69,413
Depreciation and amortization	(11,796)		(199)	(11,995)
Operating income (loss)	5,416	2,630	1,717	9,763
Investment income affiliates				(625)
Interest income				(279)
Interest expense				6,808
Income (loss) before income taxes and equity in losses of unconsolidated affiliates				$ 3,859
Additions to long-lived assets	43,285		254	$ 43,539

	Resort Ownership/ Operation	Resort Third-Party Management/License	Other	Totals per Financial Statements
Nine months ended September 30, 2008				

Revenues	$ 174,991	$ 21,648	$	$ 196,639
Depreciation and amortization	(34,171)		(584)	(34,755)
Operating income (loss)	9,977	6,655	(2,756)	13,876
Investment income affiliates				(1,629)
Interest income				(1,178)
Interest expense				20,599
Loss before income taxes and equity in losses of unconsolidated affiliates				$ (3,916)
Additions to long-lived assets	98,019		792	$ 98,811
Total assets	730,802	1,999	133,435	$ 866,236

10

Table of Contents

The Other items in the table above represent corporate-level activities that do not constitute a reportable segment. Total assets at the corporate level primarily consist of cash, our investments in and advances to affiliates, and intangible assets.

Recent Accounting Pronouncements

In April 2009, the FASB issued guidance on how to determine whether there has been a significant decrease in the volume and level of activity for an asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this guidance, as of September 30, 2009, did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued guidance which requires disclosures about fair value of financial instruments in interim financial information for periods ending after June 15, 2009. The adoption of this guidance as of September 30, 2009, did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued guidance which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. The guidance will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. The adoption of this guidance is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In June 2009, the FASB issued guidance on codification and the hierarchy of Generally Accepted Accounting Principles. The Codification superseded all non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. The guidance is effective for interim quarterly periods beginning July 1, 2009. This adoption of this guidance, as of September 30, 2009, did not have an impact on our consolidated financial statements.

In August 2009, the FASB issued guidance on measuring liabilities as fair value which provides clarification on measuring liabilities at fair value when a quoted price in an active market is not available. The guidance is effective for the first reporting period beginning after issuance. The adoption of this guidance, as of September 30, 2009, did not have an impact on our consolidated financial statements.

In October 2009, the FASB issued guidance for revenue recognition with multiple deliverables. This guidance eliminates the residual method under the current guidance and replaces it with the relative selling price method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Table of Contents

3. INVESTMENT IN AFFILIATES

CNL Joint Venture

On August 6, 2009, we sold our 30.26% joint venture interest to CNL for $6,000. We recognized a $962 gain on this sale.

Summary financial data for this joint venture is as follows:

Operating data:	Period July 1 through August 5, 2009	Three months ended September 30, 2008	Period January 1 through August 5, 2009	Nine months ended September 30, 2008
Revenue	$ 5,100	$ 10,120	$ 19,750	$ 26,488
Operating expenses	$ (4,383)	$ (10,793)	$ (24,213)	$ (31,978)
Net income (loss)	$ 717	$ (673)	$ (4,463)	$ (5,490)

We had a receivable from the joint venture of $1,465 as of December 31, 2008. At December 31, 2008, we reserved $1,201 against this receivable. We had a payable to the joint venture of $1,225 as of December 31, 2008.

Grand Mound Joint Venture

Summary financial data for this joint venture is as follows:

	September 30, 2009	December 31, 2008
Balance sheet data:		
Total assets	$ 148,162	$ 152,215
Total liabilities	$ 114,135	$ 118,636

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Operating data:				
Revenue	$ 11,170	$ 12,253	$ 31,303	$ 25,544
Operating expenses	$ (9,165)	$ (9,579)	$ (26,467)	$ (23,861)
Net income (loss)	$ 634	$ 463	$ 448	$ (3,171)

We have a receivable from the joint venture of $1,923 and $661 that relates primarily to accrued preferred equity returns as of September 30, 2009 and December 31, 2008, respectively. We have a payable to the joint venture of $2 and $581 as of September 30, 2009 and December 31, 2008, respectively.

4. SHARE-BASED COMPENSATION

We recognized share-based compensation expense of $360, and $828, net of estimated forfeitures, for the three and nine months ended September 30, 2009, respectively. The total income tax (benefit) expense recognized related to share-based compensation was $56 and $129 for the three and nine months ended September 30, 2009, 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, 2009, total unrecognized compensation cost related to share-based compensation awards was $2,187, which we expect to recognize over a weighted average period of approximately 3.0 years.

Table of Contents

The Great Wolf Resorts 2004 Incentive Stock Plan (the Plan) authorizes us to grant up to 3,380,740 stock options, stock appreciation rights or shares of our common stock to employees and directors. At September 30, 2009, there were 1,117,149 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 with exercise prices equal to the fair market value of the common stock on the grant dates. The exercise price for certain options granted under the plans may be paid in cash, shares of common stock or a combination of cash and shares. Stock options expire ten years from the grant date and vest ratably over three years.

We recorded stock option expense of $8 and $22 for the three and nine months ended September 30, 2009, respectively. There were no stock options granted during the three and nine months ended September 30, 2009 or 2008. We recorded stock option expense of $8 and $104 for the three and nine months ended September 30, 2008, respectively.

A summary of stock option activity during the nine months ended September 30, 2009, is:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Number of shares under option:			
Outstanding at beginning of period	475,000	$ 17.59	
Granted			
Exercised			
Forfeited	(21,500)	$ 18.12	
Outstanding at end of period	453,500	$ 17.57	5.34 years
Exercisable at end of period	448,500	$ 17.62	5.25 years

There was no intrinsic value of our outstanding or exercisable stock options at September 30, 2009 or 2008.

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.

We granted 541,863 and 84,748 market condition share awards during the nine months ended September 30, 2009 and 2008, respectively. We recorded share-based compensation expense of $82 and $285 for the three and nine months ended September 30, 2009, respectively, related to these grants. We recorded negative share-based compensation expense of $(129) and $(161) for the three and nine months ended September 30, 2008, respectively. Included in the 2008 amounts were reversals of expense related to the resignation of two senior officers in 2008, as the service condition of these shares was not met.

Of the 2009 market condition shares granted:

541,863 were based on our common stock s performance in 2009 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, 2009-2011. The per share fair value of these market condition shares was $1.26 as of the grant date.

Table of Contents

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	0.62%
Expected stock price volatility	96.51%
Expected stock price volatility (small-cap stock index)	37.89%

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 was 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.

Of the 2008 market condition shares awards granted:

84,748 were based on our common stock s performance in 2008 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, 2008-2010. The per share fair value of these market condition shares was $1.63 as of the grant date.

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	2.05%
Expected stock price volatility	34.98%
Expected stock price volatility (small-cap stock index)	20.08%

We used an expected dividend yield of 0% as we did not pay a dividend and did not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate was 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. Due to resignation of a senior officer in May 2008, 55,046 shares were forfeited.

The market condition for these shares was not met and therefore no shares related to this grant were issued.

Of the 2007 market condition shares awards granted:

81,293 were based on our common stock s absolute performance during the three-year period 2007-2009. For shares that are earned, half of the 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:

Table of Contents

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 was 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. Due to the resignation of two senior officers in 2008, 58,628 shares were forfeited.

81,293 were based on our common stock s performance in 2007-2010 relative to a stock index, as designated by the Compensation Committee of the Board of Directors. For shares that are earned, half of the 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 did not pay a dividend and did not contemplate paying a dividend in the foreseeable future. The weighted average, risk free interest rate was 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. Due to the resignation of two senior officers in 2008, 58,628 shares were forfeited.

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 180,622 and 37,386 performance shares during the nine months ended September 30, 2009 and 2008, respectively. Grantees of performance shares are eligible to receive shares of our common stock based on the achievement of certain individual and departmental performance goals during the calendar year. The per share fair value of performance shares granted during the nine months ended September 30, 2009 and 2008, was $1.54 and $7.09, respectively, which represents the fair value of our common stock on the grant dates. We recorded share-based compensation expense of $46 and $138 for the three and nine months ended September 30, 2009, respectively. We recorded share-based compensation expense of $23 and $27 for the three and nine months ended September 30, 2008, respectively, related to these grants. Included in the 2008 amounts were reversals of expense related to the resignation of a senior officer in 2008, as the service condition of these shares was not met.

Based on the achievement of certain individual and departmental performance goals, employees earned and were issued 18,084 performance shares in February 2009 related to 2008 grants and 20,843 performance shares in February 2008 related to 2007 grants. Since all shares originally granted were not earned, we recorded a reduction in expense of $2 and $10 during the nine months ended September 30, 2009 and 2008, respectively, related to the shares not earned.

Deferred Compensation Awards

Pursuant to their employment arrangements, certain executives received bonuses upon completion of our initial public offering (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. We 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, we account for the change in fair value of the shares held in the trust as a charge to compensation cost. We recorded share-based compensation expense of $18 and $(334), for the three and nine months ended September 30, 2009, respectively, related to these grants. We recorded negative share-based compensation expense of $92 and $796, for the three and nine months ended September 30, 2008, respectively.

In 2008, one of the executives who had deferred a bonus payment as discussed above resigned from our company. As a result, we have reclassified $2,000 previously recorded as deferred compensation to additional paid-in-capital.

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, 2009 is as follows:

	Shares	**Weighted Average Grant Date Fair Value**
Non-vested shares balance at beginning of period	300,249	$ 9.29
Granted	331,179	$ 2.88
Forfeited	(36,041)	$ 6.47
Vested	(80,123)	$ 9.64
Non-vested shares balance at end of period	515,264	$ 5.41

Our non-vested shares had an intrinsic value of $280 at September 30, 2009.

We recorded share-based expense of $186 and $645 for the three and nine months ended September 30, 2009, respectively, related to these shares. We recorded share-based expense of $19 and $463 for the three and nine months ended September 30, 2008, respectively.

Vested Shares

We have an annual short-term incentive plan for certain employees, which provides them the potential to earn cash bonus payments. For 2007 and 2008, certain of these employees had the option to elect to have some or all of their annual bonus compensation related to performance in those years paid in the form of shares of our common stock rather than cash. Employees making this election received shares having a market value equal to 125% of the cash they would have otherwise received. Shares issued in lieu of cash bonus payments are fully vested upon issuance.

We issued 17,532 shares in February 2009 related to 2008 bonus amounts. We valued these shares at $32 based on the closing market value of our common stock on the date of the grant.

We issued 265,908 shares in February 2008 related to 2007 bonus amounts. These shares were valued at $2,055 based on the closing market value of our common stock on the date of grant.

In 2008 and 2009, our directors had the option to elect to have some or the entire cash portion of their annual fees paid in the form of shares of our common stock rather than cash. Directors making this election can receive shares having a market value equal to 125% of the cash they would otherwise receive. Shares issued in lieu of cash fee payments are fully vested upon issuance. We recorded non-cash professional fees expense of $20 and $74 for the three and nine months ended September 30, 2009, related to these elections to receive shares in lieu of cash. We issued 9,061 and 31,347 shares in the three and nine months ended September 30, 2009, respectively. We recorded non-cash professional fees expense of $73 and $365 for the three and nine months ended September 30, 2008, respectively, related to these elections to receive shares in lieu of cash. We issued 20,069 and 72,293 shares in the three and nine months ended September 30, 2008, respectively.

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

	September 30, 2009	December 31, 2008
Land and improvements	$ 60,718	$ 51,684
Building and improvements	427,524	353,537
Furniture, fixtures and equipment	340,323	315,577
Construction in process	626	117,063
	829,191	837,861
Less accumulated depreciation	(141,208)	(121,688)
Property and equipment, net	$ 687,983	$ 716,173

Depreciation expense was $13,001 and $10,941 for the three months ended September 30, 2009 and 2008, respectively. Depreciation expense was $37,481 and $32,750 for the nine months ended September 30, 2009 and 2008, respectively.

Because of triggering events that occurred in the three months ended September 30, 2009, related to our resort in Sheboygan, including changes in the expectation of how long we will hold this property, current period and historical operating losses and the deterioration in the current market conditions, we tested this resort to determine if further assessment for potential impairment was required. Based on this testing, we determined the carrying value of this resort was not recoverable. As a result, we recorded a $24,000 impairment charge to decrease the resort s carrying value to its estimated fair value (net of estimated disposal costs) as of September 30, 2009. To determine the estimated fair value for purposes of calculating the impairment charge, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets. Although we believe our estimated fair value for the resort is reasonable, the actual fair value we ultimately realize from this resort could differ materially from this estimate. The impaired long-lived asset is included in our Resort Ownership/Operation segment.

6. LONG-TERM DEBT

Long-term debt consists of the following:

	September 30, 2009	December 31, 2008
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	$ 69,145	$ 70,211
Mason mortgage loan	74,800	76,800
Pocono Mountains mortgage loan	95,746	96,571
Williamsburg mortgage loan	63,500	64,625
Grapevine mortgage loan	78,709	78,709

Concord construction loan	78,549	27,594

17

	September 30, 2009	December 31, 2008
Junior subordinated debentures	80,545	80,545
Other Debt:		
City of Sheboygan bonds	8,527	8,493
City of Sheboygan loan	3,343	3,503
Other	86	
	552,950	507,051
Less current portion of long-term debt	(14,638)	(81,464)
Total long-term debt	$ 538,312	$ 425,587

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, 2009.

Mason Mortgage Loan This loan is secured by our Mason resort. On July 31, 2009 the loan maturity was extended to July 1, 2011. We incurred loan fees of $1,145 related to the extension of this loan. The loan bears interest at a floating rate of 30 day LIBOR plus a spread of 425 basis points with an interest rate floor of 6.50% (effective rate of 6.50% as of September 30, 2009). The LIBOR benchmark changes to 90 day LIBOR on December 1, 2009. The loan requires principal amortization payments of $1,000 per quarter in 2009 and $2,000 per quarter thereafter. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum tangible net worth provision for Great Wolf Resorts, Inc. The loan has no restrictions on the repayment of loan principal and has exit fees that can be paid upon full repayment of the loan or at maturity. In addition, we have provided the Mason mortgage lenders with a $30,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a $30,000 principal reduction of the Mason loan over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of majority-owned equity interest in any of our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds towards the $30,000 mandatory principal reduction. We were in compliance with all covenants under this loan at September 30, 2009.

In conjunction with the extension of this loan in January 2009, we were required to provide interest rate protection on a portion of the loan amount through the loan s then-maturity date in November 2009. Therefore, we executed an interest rate cap in the amount of $10 that caps the loan at 7.25% interest through November 2009. In conjunction with the extension of this loan in July 2009, we are required to execute an interest rate cap on or before November 30, 2009 through the loan s maturity date. We have not executed this interest rate cap as of November 5, 2009.

Pocono Mountains Mortgage Loan This loan is secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in December 2016. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at September 30, 2009.

Williamsburg Mortgage Loan This loan is secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis points with a minimum rate of 6.25% per annum (effective rate of 6.25% as of September 30, 2009). This loan matures in August 2011 and has a one-year extension available at our option, assuming the property meets an operating performance threshold. The loan has no applicable prepayment fees.

The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at September 30, 2009.

In conjunction with the closing of this loan, we were required to provide interest rate protection on a portion of the loan amount through the loan s maturity date. Therefore, we executed an interest rate cap in the amount of $522 that caps the

Table of Contents

loan at 8% interest through the loan s maturity date. This interest rate cap was designated as an ineffective cash flow hedge. We mark the interest rate cap to market and record the change to interest expense.

Grapevine Mortgage Loan This loan is secured by our Grapevine resort. On July 31, 2009 the loan maturity was extended to July 1, 2011. We incurred loan fees of $1,415 related to the extension of this loan. The loan bears interest at a floating rate of 90 day LIBOR plus a spread of 400 basis points with an interest rate floor of 7.00% (effective rate of 7.0% as of September 30, 2009). The loan requires principal amortization payments of $800 per quarter until maturity. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum tangible net worth provision for Great Wolf Resorts, Inc. The loan has no restrictions on the repayment of loan principal and has exit fees that must be paid upon full repayment of the loan or at maturity. We were in compliance with all covenants under this loan at September 30, 2009.

In conjunction with the extension of this loan in July 2009, we were required to provide interest rate protection on a portion of the loan amount through the loan s maturity date. Therefore, we executed an interest rate cap in the amount of $205 that caps the loan at 7% interest through December 2010. This interest rate cap was designated as an ineffective cash flow hedge. We mark the interest rate cap to market and record the change to interest expense.

Concord Construction Loan In April 2008 we closed on a $63,940 construction loan to fund a portion of the total costs of our Great Wolf Lodge resort under construction in Concord. The four-year loan was potentially expandable to a maximum principal amount of up to $79,900. The loan bears interest at a floating annual rate of LIBOR plus a spread of 310 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of September 30, 2009). The loan requires interest only payments until the one-year anniversary of the conversion date of the property and then requires monthly principal payments based on a 25-year amortization schedule. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. We were in compliance with all covenants under this loan at September 30, 2009. In January 2009, the total commitments under this loan increased from $63,940 to $79,900. We incurred loan fees in connection with the increase of our loan commitments.

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

Table of Contents

Issue trusts, like Trust I and Trust III (collectively, the Trusts), are generally variable interest. 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 on our consolidated balance sheet. 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, we have recognized as a liability the obligations for the BANs. We have an obligation to fund certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028, which obligation is indirectly related to the payments by the City on the BANs.

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,	
2010	$ 14,638
2011	210,809
2012	79,532
2013	3,606
2014	3,892
Thereafter	240,473
Total	$ 552,950

7. FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

The following table summarizes the Company s financial assets measured at fair value on a recurring basis as of September 30, 2009:

	Level 1	Level 2	Level 3	Total
Interest rate caps	$	$ (23)	$	$ (23)
Long-term debt		438,151		438,151
	$	$438,174	$	$438,174

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

As of September 30, 2009, we estimate the total fair value of our long-term debt to be $114,662 less than its total carrying value due to the terms of the existing debt being different than those terms currently available to us for indebtedness with similar risks and remaining maturities. These fair value estimates have not been comprehensively revalued for purposes of these consolidated financial statements since that date, and current estimates of fair values may differ significantly.

The following table summarizes the valuation of financial instruments measured at fair value on a nonrecurring basis in the statement of financial position at September 30, 2009:

	Level 1	Level 2	Level 3	Total
Property and Equipment	$	$	$ 6,000	$ 6,000

Property and equipment with a carrying amount of $30,000 were written down to their fair value of $6,000, resulting in an impairment charge of $24,000. To determine the estimated fair value for purposes of calculating the impairment charge related to our resort in Sheboygan, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets.

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

Table of Contents

8. COMPREHENSIVE INCOME

For the three and nine months ended September 30, 2008, we recorded comprehensive loss, net of tax, of approximately $271 and $220, respectively, related to gain on our interest rate swap. We had no similar amounts for the three and nine months ended September 30, 2009.

9. EARNINGS PER SHARE

We calculate our basic earnings per common share by dividing net loss available to common shareholders by the weighted average number of shares of common stock outstanding. Our diluted earnings per common share assume 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 11,765 shares of our common stock. 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.

Options to purchase 453,500 shares of common stock were not included in the computations of diluted earnings per share for the three months ended September 30, 2009, because the exercise prices of the options were greater than the average market price of the common shares during that period. There were 767,825 shares of common stock that were not included in the computation of diluted earnings per share for the three months ended September 30, 2009, because the market and/or performance criteria related to these shares had not been met at September 30, 2009.

Basic and diluted earnings per common share are as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2009	**2008**	**2009**	**2008**
	(As restated)		**(As restated)**	
Net (loss) income	$ (36,923)	$ 2,171	$ (48,274)	$ (4,246)
Weighted average common shares outstanding basic	31,291,004	30,840,691	31,179,049	30,793,822
Weighted average common shares outstanding diluted	31,291,004	30,840,691	31,179,049	30,793,822
Net loss per share basic	$ (1.18)	$ 0.07	$ (1.55)	$ (0.14)
Net loss per share diluted	$ (1.18)	$ 0.07	$ (1.55)	$ (0.14)

10. RESTATEMENT

Subsequent to our issuance of our condensed consolidated financial statements for the three and nine months ended September 30, 2009, we determined that certain spreadsheet errors were made during the computation of the valuation allowance on certain deferred tax assets recorded as of September 30, 2009. Due to the errors, we have made adjustments (the Adjustments) and the Audit Committee, in consultation with management, determined that is was necessary to restate the previously issued financial statements for the quarterly period ended September 30, 2009.

The Adjustments had the effect of decreasing our net deferred tax liability by $5,225 as of September 30, 2009, and decreasing our previously-reported income tax expense and net loss by $5,225 for the three and nine month periods ended September 30, 2009. A summary of the significant effects of the restatement is as follows:

	As Previously Reported	**Adjustment**	**As Restated**
September 30, 2009:			
Condensed Consolidated Balance Sheet			
Deferred tax liability	$ 5,891	$ (5,225)	$ 666

Total liabilities	599,700	(5,225)	594,475
Accumulated deficit	(181,310)	5,225	(176,085)
Total stockholders equity	219,570	5,225	224,795
Three Months Ended September 30, 2009			
Condensed Consolidated Statement of Operations:			
Income tax expense	18,267	(5,104)	13,163
Equity in loss (income) of unconsolidated affiliates, net of tax	122	(121)	1
Net loss	(42,148)	5,225	(36,923)
Comprehensive loss	(42,148)	5,225	(36,923)
Net loss per share-basic	$ (1.35)	$ 0.17	$ (1.18)
Net loss per share-diluted	$ (1.35)	$ 0.17	$ (1.18)
Nine Months Ended September 30, 2009			
Condensed Consolidated Statement of Operations:			
Income tax expense (benefit)	11,484	(5,104)	6,380
Equity in loss of unconsolidated affiliates, net of tax	1,237	(121)	1,116
Net loss	(53,499)	5,225	(48,274)
Comprehensive loss	(53,499)	5,225	(48,274)
Net loss per share-basic	$ (1.72)	$ 0.17	$ (1.55)
Net loss per share-diluted	$ (1.72)	$ 0.17	$ (1.55)
Condensed Consolidated Statement of Cash Flows:			
Net loss	(53,499)	5,225	(48,274)
Deferred tax expense (benefit)	11,760	(5,225)	6,535

Table of Contents

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

As described in Note 10 to the condensed consolidated financial statements, subsequent to the issuance of the condensed consolidated financial statements for the three and nine months ended September 30, 2009, our Audit Committee, in consultation with its management, determined that it was necessary to restate our previously issued financial statements for the correction of errors in 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 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. and its consolidated subsidiaries.

Business. We are a family entertainment resort company that provides our guests with a high-quality vacation at an affordable price. We are the largest owner, operator and developer in North America of drive-to family resorts featuring indoor waterparks and other family-oriented entertainment activities. Our resorts generally feature 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. 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 and snack bars, ice cream shop and confectionery, full-service spa, kids spa, game arcade, gift shops, MagiQuest (an interactive game attraction), mini golf, gr8_space and meeting space. We also

Table of Contents

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. ft2)
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 and fitness room, as well as our spa in the resorts that have such amenities.

(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

the Interior,
which is trustee
for Chehalis.

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 since 1987. 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 (H&LA) survey indicates that there are 132 open indoor waterpark indoor waterpark resort properties in the United States and Canada. Of the total, 46 are considered indoor waterpark destination resorts offering more than 30,000 square feet of indoor waterpark space. Of these 46 properties, 11 are Great Wolf Resorts properties. The same survey indicated 13 openings of indoor waterpark resorts projected for 2009. The 2009 openings include only two indoor waterpark destination resorts, one of which is our property in Concord, North Carolina.

We believe recent vacation trends favor drive-to family entertainment resorts featuring indoor waterparks, as the number of families choosing to take shorter, more frequent vacations that they can drive to have increased in recent years. We believe these trends will continue. We believe indoor waterpark resorts are generally 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 us has established a portfolio of family entertainment resorts that feature indoor waterparks. We intend to continue to expand our portfolio of resorts throughout the United States and to selectively seek licensing and management opportunities domestically and internationally. The resorts we 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 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 by targeting 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 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.

Our business model is highly dependent on consumer spending, and a vacation experience at one of our resorts is a discretionary expenditure for a family. Over the past two years, the slowing U.S. economy has led to a decrease in credit for consumers and a related decrease in consumer discretionary spending. This trend continued through the third quarter of 2009 as consumers experienced several negative economic impacts, including:

Table of Contents

- severe turbulence in the banking and lending sectors, which has led to a general lessening of the availability of credit to consumers;
- an increased national unemployment rate;
- a continuing decline in the national average of home prices; and
- high volatility in the stock market that led to substantial declines in leading market averages and aggregate household savings from 2007 to 2009.

These and other factors impact the amount of discretionary income for consumers and consumer sentiment toward discretionary purchases. As a result, these types of items could negatively impact consumer spending in future periods. While we believe the convenience, quality and overall affordability of a stay at one of our resorts continues to be an attractive alternative to other potential family vacations, a sustained decrease in overall consumer discretionary spending could have a material, adverse effect on our overall results. Also:

- We believe that our Traverse City and Sandusky resorts have been and will continue to be affected by especially 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 few years. The Michigan/Northern Ohio region includes cities that have historically been the Traverse City and Sandusky resorts largest origin 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 few years and may continue to do so going forward. Although we have taken steps to reduce our operating costs at these resorts, we believe the general regional economic downturn has and may continue to have an impact on the operating performance of our Traverse City and Sandusky resorts.

- The Wisconsin Dells property has been significantly impacted by the abundance of competing indoor waterpark resorts in that market. The Wisconsin Dells market has approximately 16 indoor waterpark resorts that compete with us. We believe this large number of competing properties in a relatively small tourist destination location has and will likely continue to have an impact on the operating performance of the Wisconsin Dells resort.

- We have experienced much lower-than-expected occupancy 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 materially behind our initial expectations. We believe this has materially impacted and will likely continue to impact the consumer demand for our indoor waterpark resort in that market and the operations of the resort.

- Because of triggering events that occurred in the three months ended September 30, 2009, related to our resort in Sheboygan, including changes in the expectation of how long we will hold this property, current period and historical operating losses and the deterioration in the current market conditions, we tested this resort to determine if further assessment for potential impairment was required. Based on this testing, we determined the carrying value of this resort was not recoverable. As a result, we recorded a $24,000 impairment charge to decrease the resort s carrying value to its estimated fair value (net of estimated disposal costs) as of September 30, 2009. To determine the estimated fair value for purposes of calculating the impairment charge, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets. Although we believe our estimated fair value for the resort is reasonable, the actual fair value we ultimately realize from this resort could differ materially from this estimate. The impaired long-lived asset is included in our Resort Ownership/Operation segment.

Our Mason resort opened its first phase in December 2006 and has experienced lower-than-expected occupancy and lower-than-expected average daily room rates. We believe this is due, in part, to the opening of competitive properties in the region.

Table of Contents

Our external growth strategies are based primarily on developing additional indoor waterpark resorts (in conjunction with joint venture partners) or licensing our intellectual property and proprietary systems to others. Developing resorts of the size and scope of our family entertainment resorts generally requires obtaining financing for a significant portion of a project s expected construction costs. The general tightening in U.S. lending markets has dramatically decreased the overall availability of construction financing.

Although the ultimate effect on our external growth strategy of the current credit environment is difficult to predict with certainty, we believe that the availability of construction financing to us and other investors has decreased significantly over the past two years. Also, we expect that the terms of construction financing may be less favorable than we have experienced historically. We believe that we and other investors may be able to continue to obtain construction financing sufficient to execute development strategies; however, the more difficult credit market environment is likely to continue at least through 2009, and possibly beyond.

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 66% of our total consolidated resort revenue for the nine months ended September 30, 2009. We employ sales and marketing efforts to increase overall demand for rooms at our resorts. We seek to optimize the relationship between room rates and occupancies through the use of yield management techniques that attempt to project demand in order to selectively increase room rates during peak demand. These techniques are designed to assist us in managing our higher occupancy nights to achieve maximum rooms revenue and include such practices as:

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

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

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

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

Table of Contents

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

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

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

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

RevPAR is the product of occupancy and ADR.

Total RevPAR and Total RevPOR are defined as follows:

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

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

Occupancy allows us to measure the general overall demand for rooms at our resorts and the effectiveness of our sales and marketing strategies. ADR allows us to measure the effectiveness of our yield management strategies. While ADR and RevPAR only include rooms revenue, Total RevPOR and Total RevPAR include both rooms revenue and other revenue derived from food and beverage and other amenities at our resorts. We consider Total RevPOR and Total RevPAR to be key performance indicators for our business because we derive a significant portion of our revenue from food and beverage and other amenities. For the nine months ended September 30, 2009, approximately 34% of our total consolidated 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 (GAAP). See Non-GAAP Financial Measures below for further discussion of our use of EBITDA and a reconciliation to net income.

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based on our condensed consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these condensed consolidated financial statements requires management to make estimates and judgments that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the unconsolidated financial statements, as well as revenue and expenses during the reporting periods. We evaluate our estimates and judgments on an ongoing basis. We base our estimates on historical experience and on various other factors we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results could therefore differ materially from those estimates under different assumptions or conditions.

Table of Contents

For a description of our critical accounting policies and estimates, please refer to Critical Accounting Policies and Estimates section of our Management s Discussion and Analysis of Financial Condition and Results of Operations contained in our Annual Report on Form 10-K for the year ended December 31, 2008. There have been no material changes in any of our accounting policies since December 31, 2008.

Recent Accounting Pronouncements

In April 2009, the FASB issued guidance on how to determine whether there has been a significant decrease in the volume and level of activity for an asset or liability when compared with normal market activity for the asset or liability. In such situations, an entity may conclude that transactions or quoted prices may not be determinative of fair value, and may adjust the transactions or quoted prices to arrive at the fair value of the asset or liability. This guidance is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. The adoption of this guidance, as of September 30, 2009, did not have a material impact on our consolidated financial statements.

In April 2009, the FASB issued guidance which requires disclosures about fair value of financial instruments in interim financial information for periods ending after June 15, 2009. The adoption of this guidance as of September 30, 2009, did not have a material impact on our consolidated financial statements.

In June 2009, the FASB issued guidance which changes how a reporting entity determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. The determination of whether a reporting entity is required to consolidate another entity is based on, among other things, the other entity s purpose and design and the reporting entity s ability to direct the activities of the other entity that most significantly impact the other entity s economic performance. The guidance will require a reporting entity to provide additional disclosures about its involvement with variable interest entities and any significant changes in risk exposure due to that involvement. A reporting entity will be required to disclose how its involvement with a variable interest entity affects the reporting entity s financial statements. The adoption of this guidance is effective for fiscal years beginning after November 15, 2009, and interim periods within those fiscal years. We are currently evaluating the impact of this guidance on our consolidated financial statements.

In June 2009, the FASB issued guidance on codification and the hierarchy of Generally Accepted Accounting Principles. The Codification superseded all non-SEC accounting and reporting standards. All other nongrandfathered non-SEC accounting literature not included in the Codification will become nonauthoritative. The guidance is effective for interim quarterly periods beginning July 1, 2009. This adoption of this guidance, as of September 30, 2009, did not have an impact on our consolidated financial statements.

In August 2009, the FASB issued guidance on measuring liabilities as fair value which provides clarification on measuring liabilities at fair value when a quoted price in an active market is not available. The guidance is effective for the first reporting period beginning after issuance. The adoption of this guidance, as of September 30, 2009, did not have an impact on our consolidated financial statements.

In October 2009, the FASB issued guidance for revenue recognition with multiple deliverables. This guidance eliminates the residual method under the current guidance and replaces it with the relative selling price method when allocating revenue in a multiple deliverable arrangement. The selling price for each deliverable shall be determined using vendor specific objective evidence of selling price, if it exists, otherwise third-party evidence of selling price shall be used. If neither exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable. After adoption, this guidance will also require expanded qualitative and quantitative disclosures. The guidance is effective for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, although early adoption is permitted. We are currently evaluating the impact of this guidance on our consolidated financial statements.

Table of Contents

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.

Table of Contents

	Three months ended September 30,		Nine months ended September 30,	
	2009 (As restated)	2008	2009 (As restated)	2008
Net (loss) income	$ (36,923)	$ 2,171	$ (48,274)	$ (4,246)
Adjustments:				
Interest expense, net of interest income	9,540	6,529	24,248	19,421
Income tax expense (benefit)	14,053	1,825	6,531	(2,290)
Depreciation and amortization	15,136	11,995	42,352	34,755
EBITDA	$ 1,806	$ 22,520	$ 24,857	$ 47,640

Results of Operations

General

Our financial information includes:

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

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

our equity interests in resorts in which we have ownership interests but which we do not 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. Under our management agreements, the resort owners reimburse us for payroll, benefits and certain other costs related to the operations of the managed properties. We include the reimbursement of payroll, benefits and costs on our condensed consolidated statements of operations as other revenue from managed properties, with a corresponding expense recorded as other expenses from managed properties.

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

Our other operating expenses include the following items:

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

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

depreciation and amortization; and

Table of Contents

other expenses from managed properties.

Three months ended September 30, 2009, compared with the three months ended September 30, 2008

The following table shows key operating statistics for our resorts for the three months ended September 30, 2009 and 2008:

	All Properties (a)			
	Three months ended September 30, 2009	Three months ended September 30, 2008	Decrease	
			$	%
Occupancy	69.1%	72.2%	N/A	(4.3)%
ADR	$246.42	$ 255.39	$ (8.97)	(3.5)%
RevPAR	$170.26	$ 184.52	$(14.26)	(7.7)%
Total RevPOR	$374.36	$ 384.75	$(10.39)	(2.7)%
Total RevPAR	$258.67	$ 277.98	$(19.31)	(6.9)%

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

	Same Store Comparison (b)			
	Three months ended September 30, 2009	Three months ended September 30, 2008	Decrease	
			$	%
Occupancy	69.9%	71.9%	N/A	(2.8)%
ADR	$240.01	$ 247.20	$ (7.19)	(2.9)%
RevPAR	$167.87	$ 177.76	$ (9.89)	(5.6)%
Total RevPOR	$363.87	$ 372.68	$ (8.81)	(2.4)%
Total RevPAR	$254.50	$ 268.00	$(13.50)	(5.0)%

(b) Same store comparison includes properties that were open for the full periods and with comparable number of rooms in 2009 and 2008 (that

is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, Poconos, Niagara Falls, Mason and Grand Mound resorts).

We believe that, consistent with other hospitality and entertainment companies experience in 2009, the decreases in occupancy and RevPAR were due in part to the effect of the overall economic downturn on consumer discretionary spending. We perform an analysis for possible impairment for each of our operating properties when we believe a triggering event has occurred that would require an impairment analysis. Because of triggering events that occurred in the three months ended September 30, 2009, related to our resort in Sheboygan, including changes in the expectation of how long we will hold this property, current period and historical operating losses and the deterioration in the current market conditions, we tested this resort to determine if further assessment for potential impairment was required. Based on this testing, we determined the carrying value of this resort was not recoverable. As a result, we recorded a $24,000 impairment charge to decrease the resort s carrying value to its estimated fair value (net of estimated disposal costs) as of September 30, 2009. To determine the estimated fair value for purposes of calculating the impairment charge, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets. Although we believe our estimated fair value for the resort is reasonable, the actual fair value we ultimately realize from this resort could differ materially from this estimate. No other triggering events were noted for the three months ended September 30, 2009.

Table of Contents

Presented below are selected amounts from the statements of operations for the three months ended September 30, 2009 and 2008:

	Three months ended September 30,		
	2009 (As restated)	2008	Increase/ (Decrease)
Revenues	$ 76,827	$69,413	$ 7,414
Operating expenses:			
Departmental operating expenses	24,484	21,415	3,069
Selling, general and administrative	14,911	11,637	3,274
Property operating costs	8,201	8,642	(441)
Depreciation and amortization	15,136	11,995	3,141
Asset impairment loss	24,000		24,000
Net operating (loss) income	(15,491)	9,763	(25,254)
Gain on sale of unconsolidated affiliate	(962)		(962)
Interest expense, net of interest income	9,540	6,529	3,011
Income tax expense	13,163	1,755	11,408
Net (loss) income	(36,923)	2,171	(39,094)

Revenues. Total revenues increased due to the following:

An increase in revenue from our Grapevine resort, due to the completion of its expansion in early 2009; and

An increase in revenue from our Concord resort, which opened in March 2009.

This increase was partially offset by decreases in revenues at our resorts due to the overall downturn in consumer discretionary spending.

Operating expenses. Total operating expenses increased primarily due to the opening of our Concord resort in March 2009, as well as our expansion at our Grapevine resort, which was completed in January 2009.

Departmental expenses increased by $3,069 for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, due primarily to the opening of our Concord resort.

Total selling, general and administrative expenses increased by $3,274 in three months ended September 30, 2009, as compared to the three months ended September 30, 2008, due primarily to the opening of our Concord resort and less labor and overhead expenses allocated to development properties during the three months ended September 30, 2009 than in the three months ended September 30, 2008.

Opening-related costs (included in total property operating costs) related to our resorts were $9 for the three months ended September 30, 2009, as compared to $402 for the three months ended September 30, 2008, due primarily to the opening of our Concord resort in March 2009.

Total depreciation and amortization increased for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008, primarily due to the expansion of our Grapevine resort as well as the opening of our Concord resort. Also, loan fees incurred during the three months ended September 30, 2009 as compared to the three months ended September 30, 2008 were higher due to fees incurred in connection with the extensions of our Mason and Grapevine mortgage loans.

Table of Contents

We recorded a $24,000 asset impairment loss related to our resort in Sheboygan during the three months ended September 30, 2009. We had no similar loss in the three months ended September 30, 2008.

Net operating (loss) income . During the three months ended September 30, 2009, we had net operating loss of $15,491 as compared to a net operating income of $9,763 for the three months ended September 30, 2008.

Net (loss) income. Net loss increased due to:

A decrease in net operating loss of $25,254 for the three months ended September 30, 2009, as compared to the three months ended September 30, 2008,

An increase in net interest expense of $3,011, mainly due to interest expense on our Concord loan, and less interest being capitalized to development properties in 2009 as compared to 2008; and

An increase in income tax expense mainly due to a $23,265 income tax expense related to our net operating loss valuation allowance, which was partially offset by the tax impact of our impairment loss.

These increases were partially offset by the gain on sale of unconsolidated affiliate in the amount of $962 recorded in the three months ended September 30, 2009. We had no similar gain in the three months ended September 30, 2008.

Nine months ended September 30, 2009, compared with the nine months ended September 30, 2008

The following table shows key operating statistics for our resorts for the nine months ended September 30, 2009 and 2008:

	All Properties (a)			
	Nine months ended September 30, 2009	**Nine months ended September 30, 2008**	**Increase (Decrease)**	
			$	**%**
Occupancy	63.4%	67.9%	N/A	(6.6)%
ADR	$243.00	$ 252.64	$ (9.64)	(3.8)%
RevPAR	$154.12	$ 171.58	$(17.46)	(10.2)%
Total RevPOR	$373.87	$ 386.66	$(12.79)	(3.3)%
Total RevPAR	$237.12	$ 262.59	$(25.47)	(9.7)%

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

	Same Store Comparison (b)			
	Nine months ended September 30, 2009	**Nine months ended September 30, 2008**	**Increase (Decrease)**	
			$	**%**
Occupancy	63.4%	66.7%	N/A	(4.9)%
ADR	$235.56	$ 246.00	$(10.44)	(4.2)%

RevPAR	$149.28	$ 164.01	$(14.73)	(9.0)%
Total RevPOR	$358.47	$ 372.04	$(13.57)	(3.6)%
Total RevPAR	$227.17	$ 248.04	$(20.87)	(8.4)%

(b) Same store comparison includes properties that were open for the full periods and with comparable number of rooms in 2009 and 2008 (that is, our Wisconsin Dells, Sandusky, Traverse City, Kansas City, Sheboygan, Williamsburg, Poconos, Niagara Falls and Mason resorts).

Table of Contents

We believe that consistent with other hospitality and entertainment companies experience in 2009, the decreases in occupancy and RevPAR were due in part to the effect of the overall economic downturn on consumer discretionary spending. We perform an analysis for possible impairment for each of our operating properties when we believe a triggering event has occurred that would require an impairment analysis. Because of triggering events that occurred in the three months ended September 30, 2009, related to our resort in Sheboygan, including changes in the expectation of how long we will hold this property, current period and historical operating losses and the deterioration in the current market conditions, we tested this resort to determine if further assessment for potential impairment was required. Based on this testing, we determined the carrying value of this resort was not recoverable. As a result, we recorded a $24,000 impairment charge to decrease the resort s carrying value to its estimated fair value (net of estimated disposal costs) as of September 30, 2009. To determine the estimated fair value for purposes of calculating the impairment charge, we used a combination of historical and projected cash flows and other available market information, such as recent sales prices for similar assets. Although we believe our estimated fair value for the resort is reasonable, the actual fair value we ultimately realize from this resort could differ materially from this estimate. No other triggering events were noted in the period ended September 30, 2009.

Presented below are selected amounts from the statements of operations for the nine months ended September 30, 2009 and 2008:

	Nine months ended September 30,		
	2009 (As restated)	2008	Increase/ (Decrease)
Revenues	$207,759	$196,639	$ 11,120
Operating expenses:			
Departmental operating expenses	67,433	62,711	4,722
Selling, general and administrative	46,542	41,729	4,813
Property operating costs	29,657	28,556	1,101
Depreciation and amortization	42,352	34,755	7,597
Asset impairment loss	24,000		24,000
Net operating (loss) income	(18,522)	13,876	(32,398)
Gain on sale of unconsolidated affiliate	(962)		(962)
Interest expense, net of interest income	24,248	19,421	4,827
Income tax expense (benefit)	6,380	(1,282)	7,662
Net loss	(48,274)	(4,246)	(44,028)

Revenues. Total revenues increased due to the following:

An increase in revenue from our Grapevine resort, due to the completion of its expansion in early 2009; and

An increase in revenue from our Concord resort, which opened in March 2009.

This increase was partially offset by decreases in revenues at our resorts due to the overall downturn in consumer discretionary spending.

Operating expenses. Total operating expenses increased primarily due to the opening of our Concord resort in March 2009, as well as our expansion at our Grapevine resort, which was completed in January 2009.

Departmental expenses increased by $4,722 for the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, due primarily to the opening of our Concord resort.

Table of Contents

Total selling, general and administrative expenses increased by $4,813 in nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, due primarily to the opening of our Concord resort, the expansion of our Grapevine resort, and less labor and overhead expenses allocated to development. Separation costs for former officers were $791 less in the nine months ended September 30, 2009 than in the nine months ended September 30, 2008.

Opening-related costs (included in total property operating costs) related to our resorts were $5,592 for the nine months ended September 30, 2009, as compared to $4,350 for the nine months ended September 30, 2008, due primarily to the expansion of our Grapevine resort in early 2009 and the opening of our Concord resort in March 2009.

Total depreciation and amortization increased for the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, primarily due to the expansion of our Grapevine resort, as well as the opening of our Concord resort. Also, loan fees incurred during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008 were higher due to fees incurred in connection with the extensions of our Mason and Grapevine mortgage loans.

We recorded a $24,000 asset impairment loss related to our resort in Sheboygan during the nine months ended September 30, 2009. We had no similar loss in the nine months ended September 30, 2008.

Net operating (loss) income. During the nine months ended September 30, 2009, we had net operating loss of $18,522 as compared to a net operating income of $13,876 for the nine months ended September 30, 2008.

Net loss. Net loss increased due to:

The decrease in operating income of $32,398 for the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008;

An increase in net interest expense of $4,827 mainly due to interest expense on our Concord loan and less interest being capitalized to development properties; and

An increase in income tax expense mainly due to a $23,265 income tax expense related to our net operating loss valuation allowance, which was partially offset by the tax impact of our impairment loss.

These amounts were partially offset by the gain on sale of unconsolidated affiliate in the amount of $962 recorded in the nine months ended September 30, 2009. We recognized this gain on the sale of our interest in the joint venture that owned the Wisconsin Dells and Sandusky resorts. We had no similar gain in the nine months ended September 30, 2008.

Segments

We have two reportable segments in 2009 and 2008:

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.

See our Segments section in our Summary of Significant Accounting Policies, in Note 2 of our condensed consolidated financial statements.

	Three months ended September 30,			Nine months ended September 30,		
	2009	2008	Increase / (Decrease)	2009	2008	Increase / (Decrease)
Resort Ownership/Operation						
Revenues	$69,424	$60,841	$ 8,583	$186,411	$174,991	$ 11,420
EBITDA	(2,823)	17,211	(20,034)	20,362	44,147	(23,785)
Resort Third-Party Management/License						
Revenues	7,403	8,572	(1,169)	21,348	21,648	(300)
EBITDA	1,828	2,631	(803)	5,252	6,655	(1,403)
Other						
Revenues						
EBITDA	2,801	2,678	123	(757)	(3,162)	2,405

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 $552,950 and $507,051 as of September 30, 2009, and December 31, 2008, respectively, summarized as follows:

	September 30, 2009	December 31, 2008
Long-Term Debt:		
Traverse City/Kansas City mortgage loan	$ 69,145	$ 70,211
Mason mortgage loan	74,800	76,800
Pocono Mountains mortgage loan	95,746	96,571
Williamsburg mortgage loan	63,500	64,625
Grapevine mortgage loan	78,709	78,709
Concord construction loan	78,549	27,594
Junior subordinated debentures	80,545	80,545
Other Debt:		
City of Sheboygan bonds	8,527	8,493
City of Sheboygan loan	3,343	3,503
Other	86	
	552,950	507,051
Less current portion of long-term debt	(14,638)	(81,464)
Total long-term debt	$ 538,312	$ 425,587

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, 2009.

Mason Mortgage Loan This loan is secured by our Mason resort. On July 31, 2009 the loan maturity was extended to July 1, 2011. We incurred loan fees of $1,145 related to the extension of this loan. The loan bears interest at a

floating rate of 30 day LIBOR plus a spread of 425 basis points with an interest rate floor of 6.50% (effective rate of 6.50% as of September 30, 2009). The LIBOR benchmark changes to 90 day LIBOR on December 1, 2009. The loan requires principal amortization payments of $1,000 per quarter in 2009 and $2,000 per quarter thereafter. This loan has customary

36

financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum tangible net worth provision for Great Wolf Resorts, Inc. The loan has no restrictions on the repayment of loan principal and has exit fees that can be paid upon full repayment of the loan or at maturity. In addition, we have provided the Mason mortgage lenders with a $30,000 corporate guaranty and cross-collateralization on our Grapevine resort. The corporate guaranty and cross-collateralization on the Grapevine property will remain in place until we make a $30,000 principal reduction of the Mason loan over the remaining term of the loan. Should there be certain liquidity-producing events, including the sale of majority-owned equity interest in any of our existing properties or the refinance of a mortgage loan on an existing property, we will be required to use 50 percent of the net proceeds towards the $30,000 mandatory principal reduction. We were in compliance with all covenants under this loan at September 30, 2009.

In conjunction with the extension of this loan in January 2009, we were required to provide interest rate protection on a portion of the loan amount through the loan s then-maturity date in November 2009. Therefore, we executed an interest rate cap in the amount of $10 that caps the loan at 7.25% interest through November 2009. In conjunction with the extension of this loan in July 2009, we are required to execute an interest rate cap on or before November 30, 2009 through the loan s maturity date. We have not executed this interest rate cap as of November 5, 2009.

Pocono Mountains Mortgage Loan This loan is secured by our Pocono Mountains resort. The loan bears interest at a fixed rate of 6.10% and matures in December 2016. The loan is currently subject to a 30-year principal amortization schedule. The loan has customary covenants associated with an individual mortgaged property. The loan also has customary restrictions on our ability to prepay the loan prior to maturity. We were in compliance with all covenants under this loan at September 30, 2009.

Williamsburg Mortgage Loan This loan is secured by our Williamsburg resort. The loan bears interest at a floating rate of 30-day LIBOR plus a spread of 350 basis points with a minimum rate of 6.25% per annum (effective rate of 6.25% as of September 30, 2009). This loan matures in August 2011 and has a one-year extension available at our option, assuming the property meets an operating performance threshold. The loan has no applicable prepayment fees. The loan has customary covenants associated with an individual mortgaged property. We were in compliance with all covenants under this loan at September 30, 2009.

In conjunction with the closing of this loan, we were required to provide interest rate protection on a portion of the loan amount through the loan s maturity date. Therefore, we executed an interest rate cap in the amount of $522 that caps the loan at 8% interest through the loan s maturity date. This interest rate cap was designated as an ineffective cash flow hedge. We mark the interest rate cap to market and record the change to interest expense.

Grapevine Mortgage Loan This loan is secured by our Grapevine resort. On July 31, 2009 the loan maturity was extended to July 1, 2011. We incurred loan fees of $1,415 related to the extension of this loan. The loan bears interest at a floating rate of 90 day LIBOR plus a spread of 400 basis points with an interest rate floor of 7.00% (effective rate of 7.0% as of September 30, 2009). The loan requires principal amortization payments of $800 per quarter until maturity. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum tangible net worth provision for Great Wolf Resorts, Inc. The loan has no restrictions on the repayment of loan principal and has exit fees that must be paid upon full repayment of the loan or at maturity. We were in compliance with all covenants under this loan at September 30, 2009.

In conjunction with the extension of this loan in July 2009, we were required to provide interest rate protection on a portion of the loan amount through the loan s maturity date. Therefore, we executed an interest rate cap in the amount of $205 that caps the loan at 7% interest through December 2010. This interest rate cap was designated as an ineffective cash flow hedge. We mark the interest rate cap to market and record the change to interest expense.

Concord Construction Loan In April 2008 we closed on a $63,940 construction loan to fund a portion of the total costs of our Great Wolf Lodge resort under construction in Concord. The four-year loan was potentially expandable to a maximum principal amount of up to $79,900. The loan bears interest at a floating annual rate of LIBOR plus a spread of

310 basis points, with a minimum rate of 6.50% per annum (effective rate of 6.50% as of September 30, 2009). The loan requires interest only payments until the one-year anniversary of the conversion date of the property and then requires monthly principal payments based on a 25-year amortization schedule. This loan has customary financial and operating debt compliance covenants associated with an individual mortgaged property, including a minimum consolidated tangible net worth provision. We were in compliance with all covenants under this loan at September 30, 2009. In January 2009, the total commitments under this loan increased from $63,940 to $79,900. We incurred loan fees in connection with the increase of our loan commitments.

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

Issue trusts, like Trust I and Trust III (collectively, the Trusts), are generally variable interest. 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 on our consolidated balance sheet. 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, we have recognized as a liability the obligations for the BANs. We have an obligation to fund certain minimum guaranteed amounts of room tax payments to be made by the Blue Harbor Resort through 2028, which obligation is indirectly related to the payments by the City on the BANs.

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,	
2010	$ 14,638
2011	210,809
2012	79,532
2013	3,606
2014	3,892
Thereafter	240,473
Total	$ 552,950

Short-Term Liquidity Requirements

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

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

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

Long-Term Liquidity Requirements

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

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

We expect to meet these needs through a combination of:

Table of Contents

- Existing working capital,
- Cash provided by operations,
- Proceeds from investing activities, including sales of partial or whole ownership interests in certain of our resorts; and
- Proceeds from financing activities, including mortgage additional or replacement borrowings under future credit facilities, contributions from joint venture partners, and the issuance of equity instruments, including common stock, or additional or replacement debt, as 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 (other than debt maturities) are expected to be for capital expenditures for development of future resorts, routine capital expenditures for our existing resorts, and capital contributions or loans to joint ventures owning resorts under construction or development. Such expenditures were $48,509 for the nine months ended September 30, 2009. We expect to have approximately $300 of such expenditures for the rest of 2009. As discussed above, we expect to meet these requirements through a combination of cash provided by operations and cash on hand.

We currently project that the combination of our cash on hand plus cash provided by operations in 2009 will be sufficient to meet the short-term liquidity requirements, as described above. Based on our current projections, however, we do not believe that we will have sufficient excess amounts of cash available in 2009 in order either to begin development of any new resorts or to make capital contributions to new joint ventures that would develop resorts that we would license and manage. Also, due to the current state of the capital markets, which are marked by the general unavailability of debt financing for large commercial real estate construction projects, we do not expect to have significant expenditures for development of new resorts until we have all equity and debt capital amounts fully committed, including our projected ability to fund our required equity contribution to a project. We believe this may result in our not making any significant expenditures in 2009 for development of new resorts or capital contributions to new joint ventures that develop future resorts.

Off Balance Sheet Arrangements

In August 2009 we sold our 30.26% joint venture interest in the joint venture that owns two resorts, Great Wolf Lodge-Wisconsin Dells, Wisconsin and Great Wolf Lodge-Sandusky, Ohio to CNL Income Properties, Inc. We currently manage both properties and license the Great Wolf Lodge brand.

We have one unconsolidated joint venture arrangement at September 30, 2009. We account for our unconsolidated joint venture using the equity method of accounting.

Our joint venture with The Confederated Tribes of the Chehalis Reservation owns the Great Wolf Lodge resort and conference center on a 39-acre land parcel in Grand Mound, Washington. This resort opened in March 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, 2009, the joint venture had aggregate outstanding indebtedness to third parties of $101,765. As of September 30, 2009, we have made combined loan and equity contributions, net of loan repayments, of $30,092 to the joint venture to fund a portion of construction costs of the resort. In January 2009, the other member of the joint venture purchased $5,991 of our loan at par.

Table of Contents

Based on the nature of the activities conducted in the joint venture, we cannot estimate with any degree of accuracy amounts that we may be required to fund in the long term. We do not currently believe that any additional future funding of the joint venture will have a material adverse effect on our financial condition, as we currently do not expect to make any significant future capital contributions to this joint venture.

Contractual Obligations

The following table summarizes our contractual obligations as of September 30, 2009:

		Payment Terms			
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
Debt obligations (1)	$ 618,826	$ 25,383	$ 311,305	$ 27,612	$ 254,526
Operating lease obligations	766	424	326	16	
Reserve on unrecognized tax benefits	1,268			1,268	
Total	$ 620,860	$ 25,807	$ 311,631	$ 28,896	$ 254,526

(1) Amounts include interest (for fixed rate debt) and principal. They also include $8,527 of fixed rate debt recognized as a liability related to certain bonds issued by the City of Sheboygan and $3,343 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.

If we develop future resorts where we are the majority owner, we expect to incur significant additional debt and construction contract obligations.

Working Capital

We had $27,994 of available cash and cash equivalents and working capital deficit of $4,738 (current assets less current liabilities) at September 30, 2009, compared to the $14,231 of available cash and cash equivalents and a working capital deficit of $117,323 at December 31, 2008. The primary reasons for the working capital deficit at September 30, 2009 are:

- The use of cash for capital expenditures and investments in and advances to affiliates and of our properties that were under development, and
- Less proceeds from issuances of long-term debt.

Cash Flows

Nine months ended September 30, 2009, compared with the nine months ended September 30, 2008

	2009	2008	Increase/ (Decrease)
Net cash provided by operating activities	$ 14,056	$ 27,265	$(13,209)
Net cash used in investing activities	(34,337)	(108,971)	74,634
Net cash provided by financing activities	34,044	88,993	(54,949)

Operating Activities. The decrease in net cash provided by operating activities resulted primarily from a decrease in operating income and accounts payable, accrued expenses and other liabilities during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008.

Table of Contents

Investing Activities. The decrease in net cash used in investing activities for the nine months ended September 30, 2009, as compared to the nine months ended September 30, 2008, resulted primarily from a decrease in contributions to our investments in affiliates offset by proceeds from the sale of our interest in a joint venture as well as an increase in loan repayments received from our affiliate. This net decrease is also due to a decrease in capital expenditures related to our properties that are in service and in development.

Financing Activities. The decrease in net cash provided by financing activities resulted primarily from receiving fewer loan proceeds during the nine months ended September 30, 2009 as compared to the nine months ended September 30, 2008.

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 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.

As of September 30, 2009, we had total indebtedness of $552,950. This debt consisted of:

$69,145 of fixed rate debt secured by two of our resorts. This debt bears interest at 6.96%.

$74,800 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 425 basis points, with a minimum rate of 6.50% per annum. The effective rate was 6.50% at September 30, 2009.

$95,746 of fixed rate debt secured by one of our resorts. This debt bears interest at 6.10%.

$63,500 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 350 basis points, with a minimum rate of 6.25% per annum. The effective rate was 6.25% at September 30, 2009.

$78,709 of variable rate debt secured by one of our resorts. This debt bears interest at a floating rate of 90-day LIBOR plus a spread of 400 basis points, with a minimum rate of 7.00% per annum. The effective rate was 7.00% at September 30, 2009.

$78,549 of variable rate debt secured by one of our resorts. This debt bears interest at a floating annual rate of LIBOR plus a spread of 310 basis points, with a minimum rate of 6.50% per annum. The effective rate was 6.50% at September 30, 2009.

$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.

$8,527 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 $3,343 of non-interest 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.

$86 related to a capital lease that was entered into in June 2009. The lease matures in May 2012.

As of September 30, 2009, we estimate the total fair value of the indebtedness described above to be $114,662 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.

At September 30, 2009, all of our variable rate debt is subject to minimum rate floors. If LIBOR were to increase or decrease by 1% or 100 basis points, the would be no change in interest expense on our variable rate debt based on our debt balances outstanding and current interest rates in effect as of September 30, 2009, as LIBOR plus the loan s basis points would not increase or decrease above the minimum rate floor.

During the nine months ended September 30, 2009, there were no other material changes in our market risk exposure. For a complete discussion of our market risk associated with interest rate risk as of September 30, 2009, see Item 7A. Quantitative and Qualitative Disclosures about Market Risk in our Annual Report on Form 10-K for the year ended December 31, 2008.

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.

Subsequent to our original evaluation in connection with the originally-filed quarterly report on Form 10-Q for the quarter ended September 30, 2009, we carried out a further 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 2009. In making this evaluation we considered matters relating to the restatement of our previously-issued consolidated financial statements as of and for the period ended September 30, 2009, including the related material weakness in our internal control over financial reporting. After consideration of the matters discussed below, we have concluded that our disclosure controls and procedures were not effective as of the end of the third quarter of 2009.

Material Weakness in Internal Control Over Financial Reporting

We are filing our Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2009, to reflect the restatement of our unaudited condensed consolidated financial statements, the notes thereto, and related disclosures for the quarter ended September 30, 2009.

Our management believes that the errors giving rise to the restatement occurred because of a variety of factors, including the complexity of the calculation of the valuation allowance on certain deferred tax assets and certain spreadsheet errors that were not detected in the related review and approval process. This control deficiency resulted in adjustments to the September 30, 2009 unaudited condensed consolidated financial statements. Accordingly, management has concluded that this control deficiency constituted a material weakness. A material weakness is a

control deficiency, or a combination of deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

In order to remediate this material weakness in internal control over financial reporting, we will increase the level of detail in our reviews of complex calculations used to derive significant financial statement amounts or estimates.

Changes In Internal Control

During the period covered by this Quarterly Report on Form 10-Q/A, there have not been any changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Remediation Measures for Identified Material Weakness

In order to remediate this material weakness in internal control over financial reporting, we will increase the level of detail in our reviews of complex calculations used to derive significant financial statement amounts or estimates.

Table of Contents

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

A regional, national or global outbreak of influenza or other disease, such as the recent international outbreak of influenza A(H1N1), could adversely affect our business and results of operations.

An outbreak of influenza or other communicable disease can impact places of public accommodation, such as our resorts. On June 11, 2009 the World Health Organization (WHO) raised its pandemic alert level, related to influenza A(H1N1), to Level 6, meaning that the disease has reached pandemic levels. In the primary markets of at least three of our resorts, localized public-health measures have been implemented as a result of outbreaks of influenza A(H1N1), including travel bans, the closings of schools and businesses, and cancellations of events. These measures, especially if they become more geographically widespread or sustained over significant time periods, or if public perception of the safety or desirability of visiting our resorts is adversely impacted by these measures or by media coverage of the outbreak, could materially reduce demand for our rooms and meeting spaces and, correspondingly, reduce our revenue, negatively affecting our business and results of operations.

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, 2008, and subsequent Quarterly Reports on Form 10-Q, which could materially affect our business, financial condition or future results. The risks described in our Annual Report on Form 10-K, and subsequent Quarterly Reports on Form 10-Q, are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

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

We did not make any unregistered sales of equity securities during the applicable period.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

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

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

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

Exhibit Number	Description
2.1	Form of Merger Agreement (Delaware) (incorporated herein by reference to Exhibit 2.1 to the Company s Registration Statement on Form S-1 filed August 12, 2004)
2.2	Form of Merger Agreement (Wisconsin) (incorporated herein by reference to Exhibit 2.2 to the Company s Registration Statement on Form S-1 filed August 12, 2004)

Table of Contents

Exhibit Number	Description
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 December 20, 2004 (incorporated herein by reference to Exhibit 3.2 to the Company s Registration Statement on Form S-1 filed August 12, 2004)
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 G. 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 Debenture, dated as of June 15, 2007, 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 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)
4.6	Purchase Agreement, dated April 29, 2009, by and among Great Bear Lodge of Wisconsin Dells, LLC, a Delaware limited liability company, Great Lakes Services, LLC, a Delaware limited liability company and CNL Income Partners, LP, a Delaware limited partnership (incorporated herein by reference to Exhibit 4.6 to the Company s Current Quarterly Report on Form 10-Q filed August 5, 2009)
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13a 14(a) and Rule 15d 14(a)
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13a 14(a) and Rule 15d 14(a)
32.1*	Certification of Chief Executive Officer Pursuant to 18 U.S.C. Section 1350
32.2*	Certification of Chief Financial Officer Pursuant to 18 U.S.C. Section 1350

* Filed herewith.

Table of Contents

SIGNATURE

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

GREAT WOLF RESORTS, INC.

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

Dated: March 1, 2010