



# Great Wolf Resorts®

North America's Largest Family of Indoor Waterpark Resorts™



2006 Annual Report





## About Great Wolf Resorts, Inc.

Great Wolf Resorts, Inc.<sup>®</sup> (NASDAQ: WOLF), Madison, WI, is North America's largest family of indoor waterpark resorts, and, through its subsidiaries and affiliates, owns and operates its family resorts under the Great Wolf Lodge<sup>®</sup> and Blue Harbor Resort<sup>™</sup> brands. Great Wolf Resorts is a fully integrated resort company and owns and/or manages Great Wolf Lodge locations in: Wisconsin Dells, WI; Sandusky, OH; Traverse City, MI; Kansas City, KS; Williamsburg, VA; the Pocono Mountains, PA; Niagara Falls, Ontario; and Mason, OH; and Blue Harbor Resort & Conference Center in Sheboygan, WI. Great Wolf Lodge properties are currently in predevelopment and/or under construction in Grapevine, TX and Grand Mound, WA.

The company's resorts are family-oriented destination facilities that generally feature 300 to 400 rooms and a large indoor entertainment area measuring 40,000 to 100,000 square feet. The all-suite properties offer a variety of room styles, arcade/game rooms, fitness centers, themed restaurants, spas, supervised children's activities and other amenities. Additional information may be found on the company's Web site at [www.greatwolf.com](http://www.greatwolf.com).





# Letter to Shareholders

On behalf of the more than 3,500 dedicated Great Wolf Resorts “pack members,” I extend my appreciation to you – our shareholders – for your continued support of our company. Reflecting on this past year, 2006 truly was the “year of the wolf.” In 2006, Great Wolf Resorts continued our expansion and solidified our position as the dominant indoor waterpark resort company in North America, opening two new resorts, breaking ground on two more and expanding or enhancing facilities at four existing properties.

Our total revenues in 2006 were 113% higher than 2004, evidencing our significant growth over the past two years. We also have two resorts under construction and scheduled to open in the next 12 months, so our continued near-term growth pattern is well-established. We are actively seeking additional sites for new resorts. Our goal is to more than double the Great Wolf Resorts portfolio over the next four to six years.

Great Wolf Resorts also posted strong year-over-year growth from operations, increasing same store revenue per available room (RevPAR) 5.1 percent and same store total RevPAR 4.8 percent. In addition, the company maintained a healthy capital structure.

## Opened Two Resorts

In April 2006, the first licensed and managed Great Wolf Lodge® opened in Niagara Falls, Ontario, Canada. This resort is the first of our flagship brand to operate outside the United States. The resort features 406 guest suites, a 103,000 square-foot indoor entertainment area and 7,500 square feet of meeting space. The property has been well received. The Niagara Falls property is our third in

the Northeast region. The proximity of those resorts has helped us build strong consumer brand awareness and acceptance to benefit all three properties.

In December 2006, the 401-suite Great Wolf Lodge resort opened in Mason, Ohio, adjacent to Kings Island, the Midwest’s largest theme park. We are co-marketing the resort with Kings Island, and the initial success of the resort is promising. The property features a 93,000 square-foot indoor entertainment area. A 40,000 square-foot conference center - our company’s largest meeting space - opened in the 2007 first quarter. The resort is a joint venture with a subsidiary of CBS Corporation. We own an 84 percent interest in the project, operate the property and license the Great Wolf Lodge brand name to the venture.

## Broke Ground on Two Resorts

In June 2006, the company broke ground on a Great Wolf Lodge resort in Grapevine, Texas. The 404-suite property will feature a 98,000 square-foot indoor entertainment area and 10,000 square feet of meeting space. Located in suburban Dallas, across from the Gaylord Texan Resort and Conference Center, the property is on schedule for a late 2007 opening.

In October 2006, we broke ground on a 394-suite Great Wolf Lodge resort with a 78,000 square-foot indoor entertainment area and a 30,000 square-foot conference center in Grand Mound, Wash., approximately midway between Seattle and Portland. The resort is owned by a joint venture with The Confederated Tribes of the Chehalis Reservation, and the property is scheduled to open in early 2008.



## Major Expansions at Two Resorts

The company completed a 38,000 square-foot indoor waterpark expansion to the Wisconsin Dells Great Wolf Lodge resort in the 2006 first quarter. The expansion doubled the size of the property's indoor waterpark, wrapping up a two-year enhancement program that also included the addition of 77 condominiums to the resort and improvements to the property's spa, food and beverage and entertainment areas.

In the 2006 second quarter the company broke ground on a major expansion of its Williamsburg, Va. resort. The expansion, which will be completed in 2007, adds 104 suites to its existing 301 suites, adds 14,000 square feet of meeting space and increases the indoor waterpark by 12,000 square feet, bringing it to 67,000 square feet.



We also continue to look for opportunities to make enhancements to our guest offerings at our other existing properties. For example, we added a Starbucks® coffee shop to our Pocono Mountains property and began construction of a miniature golf attraction at our Kansas City resort.

## Resort Concept Evolving

As Great Wolf Resorts expands across the country, the company constantly seeks ways to enhance the resort concept. Much of our concept refinement is a result of our experience at our resorts. For example, based on

the success of recent openings, we intend to increase the size of future new Great Wolf Lodge resorts to an average of about 400 to 600 suites, compared to about 300 to 400 suites in our first-generation resorts. In addition, we are focused on continuing to expand the overall guest experience at our resorts through the introduction of new revenue-generating amenities, such as miniature golf, family entertainment experiences, larger meeting space and new food and beverage outlets.

The larger size of our future resorts will allow us to more efficiently plan development sites and provide a fuller, more robust overall family entertainment experience. We now look to create long-term strategic expansion plans for each property during the development phase, an approach which we believe will allow us to more cost-effectively expand and/or enhance our resorts over time.

Our primary markets are within 180 miles of large population centers. We are not driven by the need to add properties on a fixed timetable. Rather, we are searching for quality sites in the best markets, which we believe can generate sustainable, long-term value. Where possible, we intend to pursue development in conjunction with local strategic entertainment demand generators to strengthen barriers to competition in those markets. We currently have more than a dozen potential development sites under contract or in active negotiation.

## Property Enhancements

In 2006, we signed an agreement with game developer Creative Kingdoms for a new guest experience called MagiQuest®. Introduced at our Pocono Mountains property in July, MagiQuest immerses resort guests into a world of Renaissance-style fantasy using the latest IT technology. MagiQuest works like a video game in the sense that it challenges players to complete quests, accumulate powers, and proceed to higher levels of the game. Unlike a video game, however, MagiQuest's





three-dimensional, interactive world operates throughout the resort. The popularity of the game prompted us to install it at our Williamsburg property in October and to install MagiQuest-themed suites in those resorts with the attraction. We intend to evaluate adding MagiQuest to other existing properties over time.



We are encouraged also by further internal growth prospects at our existing resorts. The company's internal development strategy involves planned expansion to several existing resorts:

- We plan to introduce an innovative, themed kids spa concept to provide children with signature spa treatments in a fun and unique setting.
- We plan to expand our Cub Club™ children's activities to provide an increased emphasis on "edutainment" activities that combine education and entertainment.
- Great Wolf Lodge - Traverse City – planned construction of an additional 9,000 square feet of meeting space, evaluating the addition of a MagiQuest family entertainment game.
- Great Wolf Lodge - Kansas City – addition of a miniature golf attraction, evaluating construction of additional meeting space.
- Great Wolf Lodge - Williamsburg – recently completed 12,000 square-foot indoor waterpark expansion, construction of 14,000 square feet of meeting space and 104 new guest suites, and planned addition of a miniature golf attraction.
- Great Wolf Lodge - Mason – 40,000 square-foot conference center opened in March 2007.

## Strengthened Marketing

Much of the company's growth in 2006 was attributable to the success of our marketing efforts. In 2006, we named

Doner as the company's new advertising agency of record. Doner works with our strong team of sales and marketing professionals to develop additional creative and media strategies in multiple markets to leverage growing consumer awareness of the company's resort brands. We believe working with a nationally recognized firm such as Doner helps give our brands increased national presence, and provides economies of scale in our marketing efforts that are difficult for smaller competitors to replicate.

During 2006, we also launched a new, more user-friendly Web site that streamlines and simplifies the online booking process. The new design allows guests to more quickly and easily locate the best promotions, rates and packages available, and learn of special activities or events that will take place during their planned visit. Forty-three percent of our room nights in 2007 have been booked online, up from about 33 percent a year ago. Our goal is to get online bookings to over 50 percent.

We intend to leverage the strength of the Great Wolf Lodge brand through merchandising and licensing. Our first merchandising project was a partnership with toy manufacturer Little Tikes®. This past holiday season, Little Tikes introduced the Great Wolf Lodge Log Cabin, a child's playhouse inspired by the exterior and interior structure of our resorts. In addition, Little Tikes toys have become the official toys of the resorts' Cub Clubs, the dedicated children's activity and craft areas, equipping the recreational areas and programs with their branded items such as art easels, gyms, kitchens, sandboxes and musical instruments. We are actively investigating other opportunities to cross-market with other major brands.



## Healthy Capital Structure

Great Wolf Resorts maintains a strong balance sheet with net debt to trailing 12-month adjusted EBITDA ratio of approximately 4.9 times. The trailing 12-month adjusted EBITDA calculation doesn't include a full year of results yet for our most recent projects, like the Mason resort that opened in December 2006 and our Williamsburg rooms expansion. Approximately 80 percent of the company's long-term debt is fixed with an average debt maturity of 11.6 years.

At year-end 2006, the company had total cash, cash equivalents and restricted cash of \$101.4 million. The company has no outstanding debt on its Williamsburg resort and we believe that we have sufficient capital and debt capacity to fund our development plans.

## Outlook

We expect to continue adding new resorts over the foreseeable future. Generally speaking, the size of these projects will be larger than our first-generation properties, requiring significant planning before beginning construction. We believe that the growing brand awareness and sheer scope of our new resorts will create substantial barriers to new competition.

Our real competitive advantage, however, is delivering a truly unique family guest experience. We believe that we have the people, training and systems in place to replicate an exceptional Great Wolf Resorts experience across all of our resorts. To all Great Wolf Resorts employees, I thank you for fulfilling our mission of "creating family traditions, one family at a time" throughout 2006.

We remain focused on our brand-building strategy as we work to further establish the premier national and



international family indoor waterpark resort company. We will continue to seek ways to enhance our guests' experiences when they visit our resorts, whether it is MagiQuest for the kids or a Starbucks coffee shop for the parents. We also are expanding our efforts with enhanced meeting and convention facilities to build occupancy throughout the week.

We believe 2007 will be another year of substantial growth for Great Wolf Resorts. We have two properties under construction, an active development pipeline and growing brand awareness and acceptance. We have sufficient capital available to fund our development plans and the financial flexibility to respond to future growth opportunities, both domestically and internationally. We will continue to work to produce long-term sustainable growth for the company and our shareholders.

In closing, I thank each of you for being a part of our company during this time of innovation and growth. In 2007, we will be celebrating 10 years of the Great Wolf Lodge brand with our Brand Wolf Birthday celebrations at each of our Great Wolf Lodge locations. I invite all of you to join us in our celebration of our branded experience.

Sincerely,

John Emery  
*Chief Executive Officer*

March 2007

