Hotel News Resource

Great Wolf Resorts Reports Second Quarter 2008 Results

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Posts Year-to-Date Same Store RevPAR Gain of 4.2 Percent

Great Wolf Resorts, Inc. (NASDAQ:WOLF) , North America's leading family of indoor waterpark resorts, today reported results for the second quarter ended June 30, 2008.

Highlights

Reported 2008 second quarter Adjusted EBITDA of $14.0 million, which was near the high end of the company's previously-issued second quarter guidance range of $12.5 million - $14.5 million. Adjusted EBITDA per diluted share increased 18.4 percent over the prior year's second quarter.

Achieved the ninth consecutive quarter of same store RevPAR improvement, even with the impact of the shift in the Easter holiday from the second quarter in 2007 to the first quarter in 2008. Great Wolf Lodge(R) brand second quarter same store RevPAR and Total RevPAR increased 1.4 percent and 3.4 percent, respectively, and year-to-date same store RevPAR and Total RevPAR increased 4.2 percent and 5.0 percent, respectively.

In August 2008, completed a $65.0 million mortgage loan on the company's Williamsburg, Va., property.

In April 2008, closed on a construction loan of $63.9 million, potentially expandable to a maximum principal amount of $79.9 million, to fund a portion of the total costs of the company's Great Wolf Lodge resort under construction in Concord, N.C.

The company's net loss for the 2008 second quarter was $(4.1) million, or $(0.13) per diluted share, compared to a net loss of $(1.7) million, or $(0.05) per diluted share in the 2007 second quarter. Results in the second quarter of 2008 reflected the shift in the timing of the Easter holiday and related spring break periods from the second quarter in 2007 to the first quarter in 2008, as well as increased depreciation and amortization and interest expense in 2008.

"We had an excellent second quarter," said Randy Churchey, interim chief executive officer. "We were particularly pleased with our results in light of softness seen in the overall economy and the operating results of many other consumer discretionary-spending companies and lodging companies. Our Adjusted EBITDA of $14.0 million for the second quarter was toward the top end of our guidance. Also, our year-to-date same store revenue per available room (RevPAR) growth through June 30 - which effectively normalizes results for the effect of the shift in the timing of the Easter holiday and related school spring breaks for 2008 and 2007 - was 4.2 percent. Also, our June 2008 same store RevPAR gain was 8.1 percent over June 2007. We believe these trends show that our business model held up well throughout the first half of 2008."

Second Quarter Operating Results

"Our portfolio results for the second quarter continue to reflect the growth and strength of our Great Wolf Lodge brand," said Kimberly Schaefer, chief operating officer. "The second quarter marked the first full quarter with operating results of our two newest properties, located in Grapevine, Texas (which opened in December 2007) and Grand Mound, Wash. (which opened in March 2008). These properties represent a dramatic geographic extension of our brand, and they have been well received. We are encouraged by solid consumer acceptance of our unique, family-oriented vacation experience in these new markets.

"We continue to monitor the marketplace for feedback from our guests regarding their experiences at our resorts, to ensure that we maintain the high level of service, comfort and quality that our customers expect from a Great Wolf Lodge," Schaefer continued. "In a slowing nationwide economy, we remain focused on keeping our position as a preferred, convenient and affordable vacation alternative for families. Our guests typically live within a few hours' drive of our resorts, which means that rising gasoline prices have only a minimal impact on the typical family's cost of a Great Wolf Resort vacation. We believe that, compared to the cost and logistical challenges of air travel to a destination resort or theme park, we offer a strong combination of convenience and price-value for families."

The company's strategy to include significant meeting space at many of its properties has had a positive impact across the portfolio. "Group bookings in the 2008 second quarter accounted for approximately 16.8 percent of our room nights sold, versus 13.8 percent of room nights in the 2007 second quarter, an increase of almost 15,000 group rooms," Schaefer remarked. "This focus on increasing group business helped expand our second quarter same store occupancy to 65.3% in 2008 from 62.0% in 2007. Room rates for group business are generally lower than for our leisure customers, so the increase in group business (in addition to the shift in the Easter holiday) contributed to a decline in same-store average daily rate in the 2008 second quarter as compared to last year. We believe we do obtain an added benefit of what is effectively increased marketing exposure when we increase our group business, however, by demonstrating our unique, family-friendly resorts to meeting attendees."

Second quarter 2008 operating statistics for the company's portfolio of Great Wolf Lodge resorts were as follows:

Great Wolf Lodge Brand - Same Store Comparison (a)

	Q2 2008	Q2 2007	Increase (Decrease) $	Increase (Decrease) %

Occupancy	65.3%	62.0%	N/A	5.3%
ADR	$232.88	$241.76	$(8.88)	(3.7)%
RevPAR	$151.96	$149.87	$2.09	1.4%
Total RevPOR	$355.20	$361.70	$(6.50)	(1.8)%
Total RevPAR	$231.78	$224.22	$7.56	3.4%

(a) Same store comparison includes only Great Wolf Lodge resorts that were open for all of both Q2 2008 and Q2 2007 (that is, the company’s Wisconsin Dells, Sandusky, Traverse City, Kansas City, Williamsburg, Pocono Mountains, Niagara Falls and Mason resorts).

Great Wolf Lodge Brand - Generation I Resorts Only - Same Store Comparison (a)

	Q2 2008	Q2 2007	Increase (Decrease) $	%
Occupancy	57.9%	59.3%	N/A	(2.4)%
ADR	$184.47	$190.31	$(5.83)	(3.1)%
RevPAR	$106.76	$112.78	$(6.02)	(5.3)%
Total RevPOR	$274.85	$282.37	$(7.52)	(2.7)%
Total RevPAR	$159.06	$167.34	$(8.28)	(4.9)%

(a) Generation I Resorts same store comparison includes only Great Wolf Lodge resorts of approximately 300 rooms or less that were open for all of both Q2 2008 and Q2 2007 (that is, the company’s Wisconsin Dells, Sandusky, Traverse City and Kansas City resorts).

Great Wolf Lodge Brand - Generation II Resorts Only - Same Store Comparison (a)

	Q2 2008	Q2 2007	Increase (Decrease) $	%
Occupancy	70.4%	63.9%	N/A	10.2%
ADR	$260.70	$275.42	$(14.72)	(5.3)%
RevPAR	$183.57	$176.03	$7.54	4.3%
Total RevPOR	$401.39	$413.60	$(12.21)	(3.0)%
Total RevPAR	$282.63	$264.34	$18.29	6.9%

(a) Generation II Resorts same store comparison includes only Great Wolf Lodge resorts of approximately 400 rooms or more that were open for all of both Q2 2008 and Q2 2007 (that is, the company’s Williamsburg, Pocono Mountains, Niagara Falls and Mason resorts).

The company’s Generation I resorts, as described in the table above, are generally smaller resorts than the company’s current resort development model and located in or near smaller markets, primarily in the Midwest. The company’s Generation II resorts, as described in the table above, are generally larger resorts that better represent the company’s current resort development model, include a more extensive range of amenities than Generation I resorts, and are located in or near larger markets. "Our Generation I properties continue to feel the combined impact of the regional economic difficulties of the U.S. automobile industry and high levels of competition," Schaefer noted. "We are pleased, however, that our Generation II resorts, which better reflect our development program going forward, continue to show robust same-store growth and we believe their size and scale also create higher barriers to potential competition. Even with the shift in the Easter holiday, we achieved RevPAR growth of 4.3 percent and ancillary (non-rooms) spending increased approximately 2 percent per occupied room."

Capital Structure and Liquidity

The company completed loans on two properties since the close of the 2008 first quarter:

In August 2008, the company closed on a $65.0 million non-recourse mortgage loan on its Williamsburg, Va. property. The new loan matures in 2011, has a one-year extension option, and bears interest at a rate of LIBOR plus 350 basis points, with a minimum rate of 6.25 percent per annum. The company used a portion of the proceeds to repay an existing $55.0 million bridge loan on the property.

In April 2008, the company obtained a $63.9 million construction loan for its Concord, N.C. resort. The four-year loan is potentially expandable to a maximum principal amount of $79.9 million. The loan bears interest during the construction period at a floating annual rate of LIBOR plus 345 basis points, with a minimum rate of 6.50 percent per annum.

The company has one debt maturity remaining in 2008 on a $76.8 million non-recourse mortgage loan secured by its Mason, Ohio property. "We are currently in discussions with the lenders to obtain a one-year extension prior to the loan’s maturity date on November 30, 2008," said James A. Calder, chief financial officer. "Other than the Mason mortgage loan, the company does not expect to have any significant debt maturities until mid-2011.

"In today’s turbulent capital markets, we remain selective in our uses of capital and are extremely focused on monitoring the ongoing construction processes at our Grapevine and Concord resorts," Calder continued. "Also, we think our prospective development strategy, consisting primarily of licensing arrangements and joint ventures, allows us the most efficient and effective use of our capital. We currently have no required capital commitments for future resorts past the completion of our Concord resort in Spring 2009.

"Assuming the extension of the Mason loan, we are confident that we will have sufficient liquidity to operate our business absent any significant downturn in our expected operating results," Calder commented.

Construction Update

The company’s 402-suite Great Wolf Lodge resort in Concord, N.C. near Charlotte is approximately 50 percent complete and is scheduled to open in Spring 2009. "Our Concord resort is in the heart of a popular tourist destination, which currently is undergoing significant expansion, especially at the nearby Lowes Motor Speedway," Churchey said. "We fit in well with the mix of other hospitality and entertainment offerings, many of which attract a lot of families. Our property will be the premier indoor waterpark destination in the Carolinas. With our construction financing in place, we now have begun drawing down on that loan in the 2008 third quarter."

The first phase of the company’s Grapevine resort expansion, which includes a 203-suite addition and an additional 20,000 square-foot meeting facility, is set to open in late 2008. Construction is approximately 50 percent complete, and the full expansion opening date is expected in early 2009.

Development Update

The company continues to actively pursue three projects currently under letters of intent: a joint venture with the Mashantucket Pequot Tribal Nation to develop a Great Wolf Lodge resort on tribal-owned land near its southeast Connecticut reservation and Foxwoods Resort Casino, a Great Wolf Lodge resort at the Mall of America(R), in Bloomington, Minn., and a Great Wolf Lodge resort on the shores of Lake Lanier, near Atlanta, Ga.

"We are excited about the potential prospects for each of these projects," Churchey noted. "We do not intend, however, to enter into any new significant capital commitments under our development program until the capital markets stabilize. As these projects under letters of intent are large, complex and require access to reasonably-priced capital, their timing is hard to predict with certainty. We continue to move forward with the planning process, however, to position ourselves to move ahead at the appropriate time. Additionally, we are actively involved in the evaluation process on several U.S. and international potential sites for future resort development. We currently expect all of our future domestic and international prospects to be developed through licensing arrangements or joint ventures. We continue to see these avenues as the prudent way to grow our company while maintaining reasonable overall leverage."

Key Financial Data

As of June 30, 2008, Great Wolf Resorts had:

Total unrestricted cash and cash equivalents of $34.7 million.

Total secured debt of $375.9 million.

Total unsecured debt (junior subordinated debentures) of $80.5 million.

Weighted average cost of total debt of 6.6 percent.

Weighted average debt maturity of 7.3 years.

Total construction in progress for consolidated resorts and other projects currently under construction but not yet opened of $77.7 million.

Proforma leverage ratio (net debt to Adjusted EBITDA) of 5.0 times (adjusts for construction in progress and resorts open less than one year).

Outlook and Guidance

"It is clear that the leisure and hospitality sectors are feeling the impact of a softening economy," Churchey observed. "Our portfolio of properties continues to post good results, with occupancy, RevPAR and RevPOR remaining strong year-to-date. Because of our resorts’ close proximity to major population centers or other tourist destinations, we believe that they continue to be convenient, affordable family vacation alternatives, even in a tighter economy. Looking at trends through July, we remain optimistic about our operating results for our third quarter, which is traditionally our largest contributor of Adjusted EBITDA for the year. Based on our current operating outlook, we are increasing the low end of our guidance for full-year Adjusted EBITDA from $62.0 million to $63.0 million, consequently, our full- year Adjusted EBITDA guidance is now a range of $63.0-$70.0 million."

The company provides the following outlook and earnings guidance for the third quarter and full year 2008 (amounts in thousands, except per share data). The outlook and earnings guidance information is based on the company’s current assessment of business conditions, including consumer demand and discretionary spending trends, as of late July 2008. As in the past, the company does not anticipate updating its guidance again until next quarter’s earnings release. The company may, however, update any portion of its business outlook at any time as conditions dictate:

	Q3 2008		Full year 2008	
	Low	High	Low	High
Net income (loss)	$(2,130)	$270	$(16,620)	$(12,420)
Net income (loss) per diluted share	$(0.07)	$0.01	$(0.54)	$(0.40)
Adjusted EBITDA (a)	$19,500	$23,500	$63,000	$70,000
Adjusted net income (loss) (a)	$(1,470)	$930	$(9,825)	$(5,625)
Adjusted net income (loss) per diluted share	$(0.05)	$0.03	$(0.32)	$(0.18)