

Great Wolf Wrangle

Major stockholder plans to nominate himself, two others to board of directors

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Feb 4, 2008 --- A major shareholder of Great Wolf Resorts Inc. is unhappy with the Madison company's lagging performance and plans to nominate an alternate slate of directors to the board.

If elected, those new directors could push for a sale of Great Wolf, which operates indoor water park resorts in Wisconsin Dells and Sheboygan.

In a filing with the Securities and Exchange Commission on Monday, investor Eric Hovde said he plans to nominate himself and two other candidates, including a former Great Wolf executive, to the company's board. That would set up a likely proxy battle at this spring's annual shareholders meeting.

Hovde is president and chief executive of Washington, D.C.-based Hovde Capital Advisors LLC and controls a 5.6% stake in Great Wolf. He previously had asked Great Wolf's directors to replace at least two members of the eight-member board, but that request was rejected, according to the SEC filing.

Hovde is concerned with Great Wolf's operating performance, saying in the filing that "return on invested capital continues to be unsatisfactory." Return on invested capital is the cash rate of return on capital that a company has invested. It provides a measure of how effectively management allocates capital to create value.

In the filing, Hovde cited "a lack of direction" at Great Wolf, which he blamed on the board's failed leadership; a "disappointing" management team; and a lack of "meaningful ownership" by board members other than John Emery, the company's chief executive.

In the filing, Hovde said shareholder value would be improved if the board included directors with "a meaningful equity ownership interest, thereby increasing alignment with the interests of its shareholders."

Hovde also wants the board to evaluate Great Wolf's strategic options, which could include a sale of the company, and take measures to reduce Great Wolf's expenses and unnecessary overhead.

Emery said the directors will consider Hovde's call for a review of strategic options.

But the board is "always considering what is best for the company. I believe our board has done that quite well. I don't think our board has to reconsider its strategy," Emery said in an interview.

Through the first three quarters of 2007, Great Wolf had a loss of \$1.9 million, or 6 cents a share, on revenue of \$145.6 million. The company reported higher revenue, but its operating costs rose and its interest expense more than doubled.

Layoffs in the automotive industry have hurt business at Great Wolf resorts in Traverse City, Mich., and Sandusky, Ohio, the company said in its earnings report. Its Blue Harbor Resort in Sheboygan continues to underperform because of the city's slow development as a tourism destination, it said.

Meanwhile, competition is increasing. The room supply at water park hotels grew 20.9% in 2007, compared with room supply growth of 1.4% at ordinary hotels, according to a new report from industry consultants Jeff Coy and Bill Haralson.

Great Wolf began trading publicly in December 2004 at \$17 a share. That price had a one-day plunge of 31% in July 2005 after reporting a quarterly loss that was more than double what the company had expected.

The company stock closed Monday at \$8.43 a share, down 29 cents, or 3.3%.

The SEC filing said Hovde plans to nominate himself; Richard Murray, a Hovde Capital senior investment analyst; and Eric Lund, former Great Wolf executive vice president of sales and marketing.

That alternate slate would be pitted against all eight members of the Great Wolf board, who run annually for one-year terms, said Richard Perry, Hovde Capital general counsel. The election will be at the annual shareholders meeting, which has not yet been scheduled. Last year's meeting was in May.

Perry declined to say whether other Great Wolf institutional shareholders are lining up with Hovde behind the alternate slate.

Lund is a co-founder of Great Lakes Co., which later changed its name to Great Wolf Resorts. Like Hovde, Lund grew up in Madison.

Lund and Craig Stark, who was Great Wolf president, both resigned in March 2005 and later formed S&L Hospitality, a Fitchburg-based hotel operator. Emery remained as Great Wolf chief executive officer after their resignations.

Great Wolf operates 10 water park resorts in Wisconsin, Ohio, Michigan, Pennsylvania, Ontario, Virginia, Texas and Kansas, and has two others under construction in North Carolina and Washington. Great Wolf operates a

reservation call center in Madison and leases its headquarters in a downtown Madison building owned by Hovde's family.

This marks the second time in recent years that an investor has sought a sale of Great Wolf.

In August 2006, New York-based hedge fund manager Hayground Cove Asset Management LLC, which owned 8.7% of Great Wolf, clamored for a sale. In an SEC filing, Hayground CEO Jason Ader said Great Wolf's then-chairman, Bruce Neviaser, told him he believed Great Wolf's stock was undervalued.

Neviaser, a Great Wolf co-founder, resigned his chairmanship one month later. Hayground has since reduced its stake to 2.9% of Great Wolf's shares, as of Jan. 9, according to an SEC filing.