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DEAL OF THE WEEK

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Cherokee Casino Bets on More Glitz

By MAURA WEBBER SADOVI

Lady Antebellum and Hank Williams Jr. will be the headliners on Labor Day weekend when Harrah's Cherokee Casino & Hotel in the Great Smoky Mountains of North Carolina opens a 3,000-seat event center.

The owners, the Eastern Band of Cherokee Indians, will have good reason to join in the singing.

Casino expansions are unusual events these days in the world of Indian gambling. Like gambling parlors throughout the country, they have been hurt by shrinking casino revenue.

Cuningham Group Architecture, P.A.

A rendering of the planned expansion of Harrah's Cherokee Casino & Hotel in North Carolina. The casino plans to double the size of its gambling space and add some Las Vegas-style glitz.

Investors have been particularly spooked by Indian gambling in the wake of several defaults by a number of casinos, including Foxwoods Resort Casino in Ledyard, Conn., which is owned and operated by the Mashantucket Pequot Tribal Nation.

These defaults have reignited concerns over a unique risk facing lenders to Indian casinos. Lenders to other casinos typically can step into the shoes of the owner in the case of a foreclosure. But by law Indian tribes are the only entities that can get regulatory approval to own casinos on their own reservations, and that complicates a lender's ability to recoup its defaulted debt, said Michael Paladino, a senior director at Fitch Ratings.

"The specter of no collateral…is the biggest problem with the financing of Indian gaming," said Bill Eadington, director of the Institute for the Study of Gambling and Commercial Gaming at the University of Nevada, Reno.

Not surprisingly, in this climate it has been difficult for Indian tribes to raise money to launch new casinos or expand existing ones. But the Cherokee in North Carolina has managed to sidestep these concerns.

Opened in 1997, the casino is moving ahead with a $633 million project that is adding some Las Vegas-style glitz along with doubling the size of its gambling space. Before the expansion, the casino, which is owned by the Cherokees and operated by Harrah's Entertainment Inc., had 575 hotel rooms and some 3,200 games largely comprised of video slots, said John Houser, chairman of the Tribal Casino Gaming Enterprise, a board appointed by the tribe to oversee the casino. The new casino will have about 4,500 games and a wider variety, including video poker.

By the end of this year, a third hotel tower is expected to be completed by Turner Construction Co. that will roughly double the number of hotel rooms to just over 1,000. Meanwhile, construction also began this month on a rotunda that will include a more dramatic casino entrance, with interior design elements that include 85-foot-tall sculptured trees and a waterfall. Also on tap: an 18,000-square-foot spa and new restaurants, including a Ruth's Chris Steak House. When the complex is finished in 2012, the total amount of gambling space will have been doubled to about 160,000 square feet, Mr. Houser said.

Construction is continuing because the tribe still has some $350 million left on a $650 million line of credit that it got in 2007 to fund the construction from a group of banks led by Wells Fargo & Co., said Mr. Houser.

In other situations, lenders have been able to balk on fully funding such credit lines because financial performance didn't hit certain thresholds, said Mr. Paladino of Fitch Ratings.

The casino was a hit when it opened in 1997. Patrons lined up in the rain for hours, and the casino temporarily shut its doors when the crowd became too large. But gambling revenue at Harrah's Cherokee casino has fallen about 10% from a peak of $252.9 million in 2007 to $228.4 million last year, according to the tribal oversight board.

Michell Hicks, principal chief of the Eastern Band of Cherokee Indians, said no slowdown in its expansion plan is being contemplated. Casino officials met with lenders in May as part of a routine annual assessment of the project, and there were no changes in the financing, he said. "We're still set on go," said Mr. Hicks.

He said the casino's strategy is to create a more-diversified destination resort that can compete with such gambling hubs as Atlantic City, N.J. A Wells Fargo spokeswoman and a Harrah's spokesman declined to comment.

Write to Maura Webber Sadovi at maura.sadovi@wsj.com