EXHIBIT 3  
  
 MEMORANDUM OF UNDERSTANDING  
  
 April 17, 2000  
  
  
 THIS MEMORANDUM OF UNDERSTANDING confirms the  
agreements among the individuals listed on the signature pages hereto  
(collectively, the "Executives"), and PH Casino Resorts, Inc., a Delaware  
corporation ("PHCR"), a wholly owned subsidiary of Harveys Casino Resorts,  
a Nevada corporation ("Harveys"), in connection with PHCR's agreement to  
acquire Pinnacle Entertainment, Inc., a Delaware corporation (the  
"Company"), pursuant to the Agreement and Plan of Merger (the "Merger  
Agreement") by and among PHCR, Pinnacle Acquisition Corporation, a Delaware  
corporation ("Pinnacle Acq Corp"), and the Company. For all purposes herein  
(including the schedules attached hereto), references to the Executives'  
employment agreements (including all forms of compensation due thereunder)  
shall be deemed to include adjustments, amendments or restatements thereof  
to the extent such adjustments, amendments or restatements are permitted by  
the terms of the documents governing an Acquisition Transaction (as defined  
below) or are otherwise agreed to in writing by PHCR prior to the  
consummation of such Acquisition Transaction. Capitalized terms used but  
not defined herein shall have the respective meanings ascribed to such  
terms in the Merger Agreement.  
  
1. General Statement of Purpose. The Executives and PHCR have  
 conducted discussions with respect to an acquisition by merger of  
 all of the outstanding shares of the Company, except for those  
 shares that the Company will repurchase from X.X. Xxxxxxx (as  
 contemplated in the Merger Agreement) and/or those which the  
 Executives will contribute directly to PHCR in exchange for shares  
 of its stock, and/or those options held by the Executives to  
 acquire shares of the Company, which shall be fully vested and  
 canceled in exchange for the issuance of options of PHCR  
 (collectively an "Acquisition Transaction"). The Executives and  
 PHCR have concluded that it would be desirable to effect an  
 Acquisition Transaction. To that end, the parties hereto have  
 executed this Memorandum of Understanding and a Voting and  
 Contribution Agreement to confirm their binding agreements. The  
 Executives and PHCR agree that this Memorandum of Understanding  
 shall terminate and cease to be of effect upon the termination of  
 the Merger Agreement or upon the execution of definitive agreements  
 with respect to the matters set forth herein.  
  
2. Rollover of Equity.  
  
 (a) PINNACLE STOCK. In exchange for the shares of Pinnacle  
 common stock ("Pinnacle Stock") rolled over, Executives will  
 receive a number of shares of voting and nonvoting stock  
 ("PHCR Stock") of PHCR equal to the product of (i) the  
 number of shares of Pinnacle Stock contributed to PHCR and  
 (ii) $24.00 per share 1, divided by $45.77707, the per share  
 price of PHCR Stock to be issued in exchange for all  
 outstanding shares of common stock of Harveys Casino  
 Resorts, assuming a 10 million share fully diluted PHCR  
 Stock capitalization before giving effect to any issuances  
 hereunder.  
  
 (b) PINNACLE OPTIONS. In the event that options held by the  
 Executives are not converted into Pinnacle Stock prior to  
 the consummation of the Acquisition Transaction, Executives  
 with options to purchase Pinnacle Stock (the "Pinnacle  
 Options") will exchange such options for options to purchase  
 PHCR Stock, with the exercise price and number of shares  
 adjusted appropriately to preserve the value of each  
 Executive's Spread. 2  
  
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1 If the Inglewood Land is sold on or prior to the fifth Business Day  
 prior to the Closing Date of the Acquisition Transaction, such  
 number will be increased in the same manner provided for holders of  
 Pinnacle Stock under the Merger Agreement. If the Inglewood Land is  
 sold after the fifth Business Day prior to the Closing Date of the  
 Acquisition Transaction, Executives will receive a cash payment for  
 each share contributed equal to any amount paid to a holder of a  
 share of Pinnacle Stock upon such event pursuant to the Merger  
 Agree ment and one Class A CPR.  
  
2 The Spread for each Pinnacle Option is equal to the product of (i)  
 the number of unexercised shares subject to a Pinnacle Option and  
 (ii) the difference between (A) $24.00 per share (subject to  
 adjustment in the event that the Inglewood Land is sold on or prior  
 to the fifth Business Day prior to the Closing Date of the  
 Acquisition Transaction as set forth in the first sentence of  
 footnote 1) and (B) the per share option exercise price. If the  
 Inglewood Land is sold after the fifth Business Day prior to the  
 Closing Date of the Acquisition Transaction, Executives will  
 receive a cash payment for each share of Pinnacle Stock subject to  
 the exchanged Pinnacle Option equal to any amount paid to a holder  
 of a share of Pinnacle Stock upon such event pursuant to the Merger  
 Agreement and one Class A CPR.  
  
  
 (i) Executives who so chose may, immediately following  
 the Acquisition Transaction, perform a cashless  
 exercise of their options to purchase PHCR Stock.  
  
 (ii) PHCR will make available to the Executives (other  
 than Messrs. Xxxxxxx, Xxxxxxxx and Xxxxxx) loans, in  
 an aggregate amount not to exceed $2.5 million, to  
 pay taxes incurred by the Executives in connection  
 with the cashless exercise of their options either  
 before or after the Acquisition Transaction. Such  
 loans would be made upon the following terms:  
  
 (1) secured by all present and future equity  
 interests in PHCR,  
 (2) interest rate of 8%, with interest to be  
 compounded and payable annually, with bonus  
 payments (net of taxes on such bonus payments)  
 earned by Executive to be offset by such  
 interest payments due,  
 (3) 4 year maturity, with respect to the entire  
 principal balance, and any accrued but unpaid  
 interest,  
 (4) prepayable without penalty,  
 (5) will accelerate upon the termination of the  
 Executive's employment.  
  
 (iii) PHCR will represent and warrant that it has no  
 present plan or intention to liquidate either the  
 Company or Harveys, and PHCR will not liquidate  
 Pinnacle or Harveys within two (2) years after the  
 Closing Date unless it provides to the Executives an  
 opinion of its representing counsel, based on  
 customary assumptions but otherwise substantially  
 unqualified that the liquidation would not cause the  
 contributions of Pinnacle Stock to PHCR pursuant to  
 the Voting Agreement to fail to qualify as exchanges  
 under Section 351 of the Internal Revenue Code of  
 1986, as amended (the "Code"). The immediately  
 foregoing representations, warranties or covenants  
 shall survive any transfer of the ownership of 51% of  
 Colony's (as defined in Section 4) total equity  
 interest in PHCR (whether voting or nonvoting) held  
 by Colony (or an affiliate of Colony).  
  
 (iv) PHCR shall deliver or cause to be delivered to each  
 Stockholder at the Closing a letter dated as of the  
 Closing Date from Colony Investors III, L.P. and each  
 other investment vehicle used by Colony Capital, Inc.  
 that holds an interest in PHCR immediately following  
 the Harveys Merger (each a "Colony LP") representing  
 and warranting to such Stockholder that such Colony  
 LP has no present intention or plan to sell, exchange  
 or otherwise dispose of any of its interests in PHCR.  
  
 (v) When making future infusions of funds to Pinnacle Acq  
 Corp and/or the Pinnacle Surviving Corporation, if  
 any, PHCR shall endeavor in good faith to provide  
 such funds to Pinnacle Acq Corp and/or the Pinnacle  
 Surviving Corporation by means of intercompany loans  
 unless PHCR determines in its reasonable judgment  
 that to do so would be inadvisable.  
  
 (c) RIGHTS OF REPURCHASE/PUT RIGHTS.  
  
 (i) Each of the Executives who is also an employee of the  
 Company regardless of whether he is a party to a  
 written employment agreement with the Company (other  
 than Messrs. Xxxxxxxx and Xxxxxxx) will have the  
 right, individually, to require PHCR to repurchase  
 his shares of PHCR stock and PHCR will have the right  
 acquire such shares, each in accordance with the  
 provisions set forth in this paragraph (i), upon the  
 termination of an Executive's employment with PHCR  
 for any reason other than one specified in  
 subparagraph (ii) below. The repurchase price shall  
 be paid 1/3 upon exercise, and 1/3 on the first and  
 second anniversary of such termination. For purposes  
 of such repurchase, the fair market value of the  
 shares of PHCR stock to be repurchased shall be  
 calculated based upon the following formula: 6.45  
 times the 12 month trailing EBITDA of PHCR (including  
 the combined EBITDAs of Harveys and the Company for  
 an appropriate number of months in the event that  
 there are less than twelve months of EBITDA for the  
 operating subsidiaries of PHCR following the closing  
 of the Acquisition Transaction), minus net debt (or  
 other liabilities that would customarily be treated  
 as debt for valuation purposes), divided by the total  
 number of shares of PHCR stock outstanding, times the  
 number of shares of PHCR stock to be repurchased. For  
 purposes of calculating net debt, the amount of  
 capital invested in any uncompleted development  
 projects, including expansions of existing  
 properties, shall be included in the calculation of  
 cash on hand. For purposes of calculating EBITDA and  
 net debt, such calculation will be made in a manner  
 substantially consistent with the past practices of  
 Harveys and the Company including in connection with  
 equity valuations for this transaction. The unpaid  
 purchase price will bear interest at the rate of 12%  
 per year, compounded annually. The right to trigger  
 such repurchase process shall constitute an absolute  
 right and obligation of the Executives and PHCR,  
 respectively, in accordance with the terms hereof. No  
 other claims (other than repayment of the loans  
 described in Section 2(b)(ii) above) shall either:  
 (A) be asserted by either party in such repurchase  
 process; or (B) be deemed to have been waived as a  
 result of such repurchase.  
  
 (ii) In the event that an Executive described in  
 subsection (i) above either: (x) is terminated for  
 cause 3; or (y) voluntarily terminates (1) in the  
 case of an Executive who is a party to an effective  
 employment agreement with the Company that defines  
 good reason or a similar standard, without good  
 reason as defined in his employment agreement or (2)  
 in the case of any other Executive (other than  
 Messrs. Xxxxxxx and Xxxxxxxx), for any reason, then  
 PHCR will have the right to acquire, and the  
 Executive will have the right to require PHCR to  
 repurchase such shares on the same terms and  
 conditions set forth in subparagraph (ii) above,  
 except such repurchase shall be paid 20% upon  
 exercise and 20% on each of the first four  
 anniversaries of such termination and will bear  
 interest at the rate of 8% per annum (rather than  
 12%), compounded annually from date of termination to  
 the date of repurchase by PHCR.  
  
  
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3 In the case of an Executive who is a party to a written employment  
 agreement with the Company, the determination of whether he has  
 been terminated for cause shall be governed by the terms of his  
 employment agreement, to the extent specified therein. In the case  
 of an Executive who is a party to a written employment agreement  
 with the Company but where the standard is not so specified, and in  
 the case of an Executive who is not a party to a written employment  
 agreement with the Company, such Executive shall be deemed to have  
 been terminated for cause if the Company had the right to terminate  
 such Executive's employment for "gross misconduct" as such term is  
 used for purposes of determining an employee's right to  
 continuation of health coverage under Section 4980B(f)(3)(B) of the  
 Code.  
  
  
  
3. Incentive Grants of Restricted Stock and Stock Options. If the  
 Acquisition Transaction is consummated, then, at the Closing PHCR  
 shall grant 604,464 shares of restricted PHCR Common Stock (the  
 "PHCR Restricted Stock"), to the Executives in accordance with  
 Schedule A hereto. The agreements evidencing the PHCR Restricted  
 Stock will, except as otherwise provided herein, contain  
 substantially the same terms (with respect to the issuance of  
 restricted stock only) as that certain management stock option and  
 restricted stock agreement, dated February 2, 1999, by and between  
 Harveys and Xxxx XxXxxxxxxx. An additional 530,223 shares of PHCR  
 Common Stock shall be reserved for issuance of stock options (the  
 "New Options") pursuant to a stock option plan for the benefit  
 members of senior management of the Company (the "Key Managers").  
 The division of such New Options among the Key Managers shall  
 reasonably be determined by Xx. Xxxxxx, consistent with industry  
 standards and subject to the approval of PHCR. The per share  
 exercise price of the New Options shall be at $43.17, the implied  
 share value determined in accordance with the Bear Xxxxxxx model.  
  
 As set forth above, the incentive grants of PHCR Restricted Stock  
 will, except as otherwise provided herein, contain substantially  
 the same terms (with respect to the issuance of restricted stock  
 only) as that certain management stock option and restricted stock  
 agreement, dated February 2, 1999, by and between Harveys and Xxxx  
 XxXxxxxxxx, which is intended to defer the imposition of federal  
 and state tax to the extent set forth therein or, subject to the  
 terms of Section 5(f) below, the termination of the Executive's  
 employment with PHCR (either as a member of management or a  
 director) occurs for whatever reason. At all times following the  
 date the incentive grants of PHCR Restricted Stock are awarded the  
 Executive shall be fully vested in such awards and the stock  
 represented by such incentive grant shall, except as set forth in  
 Section 5(f) below, be fully includable in the stock to be  
 repurchased by PHCR pursuant to the terms set forth in Section 2  
 above. Except as specifically set forth above, shares issued or  
 issuable under this Section 3 (except to Messrs. Xxxxxxx and  
 Xxxxxxxx) shall be subject to a right of repurchase by PHCR  
 pursuant to the terms of the Stockholders Agreement (as defined in  
 Section 4).  
  
 The New Options granted to each of Messrs. Alanis, Allen, Ostrow  
 and Kortman shall vest in accordance with the following schedule:  
 20% on each of the first five anniversaries of the Closing;  
 provided, however, that if prior to the expiration of the current  
 term of his existing employment agreement with the Company (or upon  
 the earlier replacement or extension, as the case may be) (i) he is  
 terminated without cause (as defined in his employment agreement,  
 if defined, or if not defined, as defined in footnote 3 hereof);  
 (ii) he voluntarily terminates his employment for good reason (as  
 defined in his employment agreement, if defined); or (iii) the  
 Company does not offer to renew his employment agreement on  
 reasonable terms (provided, however, that for purposes of this  
 Memorandum of Understanding, no offer shall be deemed unreasonable  
 solely because it offers vesting and forfeiture provisions with  
 respect to incentive equity that are on substantially the same  
 terms as other employees) and such agreement is allowed to expire,  
 then such New Options shall become fully vested and exercisable  
 immediately upon such termination or expiration and the all of  
 shares subject to the New Options shall be subject to the  
 repurchase rights set forth in Section 2 above. In the event of  
 termination of employment for any other reason (or failure to renew  
 an employment agreement following a reasonable offer by the  
 Company), then such New Options as have not become vested and  
 exercisable in accordance with the schedule set forth above shall  
 be forfeited and only the shares subject to the New Options that  
 have become vested and exercisable in accordance with such schedule  
 shall be subject to the repurchase rights set forth in Section 2  
 above.  
  
 All other New Options shall vest 20% on each of the first five  
 anniversaries of the Closing and shall otherwise have the same  
 terms as options issued under Harveys' current plan.  
  
4. Stockholders Agreement. Any PHCR Stock or options issued hereunder  
 shall be subject to a stockholders agreement (the "Stockholders  
 Agreement") with substantially the same provisions as the  
 Stockholders Agreement in effect at Harveys on the date hereof,  
 except to the extent that the provisions of the Stockholders  
 Agreement are inconsistent with the provisions hereof, in which  
 case the provisions set forth herein shall govern and control, and  
 be deemed to supercede such contrary provisions in the Stockholders  
 Agreement.  
  
 In connection with the Stockholders Agreement, Colony Investors  
 III, L.P. ("Colony") shall enter into an appropriate agreement with  
 Xx. Xxxxxxx which shall grant to Xx. Xxxxxxx the following rights:  
 (1) the right to sell or dispose of his Tag-Along Shares (as  
 defined in the Stockholders Agreement) pursuant to Subsection  
 2.5(a) of the Stockholders Agreement without giving effect to  
 Subsection 2.5(b) of the Stockholders Agreement; (2) a "lock-up"  
 restriction pursuant to Section 2.6 of the Stockholders Agreement  
 which shall be co- extensive with that of Colony; and (3) one  
 demand registration right, subject to customary terms and  
 conditions and any lockup required in connection with an IPO. So  
 long as Xx. Xxxxxxx beneficially owns at least 50% of the  
 outstanding PHCR Stock (including PHCR Restricted Stock and New  
 Options, if any) owned by him immediately following the Effective  
 Time, without Xx. Xxxxxxx'x approval (which approval shall not be  
 unreasonably withheld or delayed), Colony shall not consent to any  
 waiver of the Stockholders Agreement or the Memorandum of  
 Understanding or any of the agreements contemplated by either of  
 them that would materially adversely affect Xx. Xxxxxxx'x rights  
 under the Stockholders Agreement.  
  
 In connection with the Stockholders Agreement, Colony also shall  
 enter into an appropriate agreement with Xx. Xxxxxxxx which shall  
 grant to Xx. Xxxxxxxx the following rights: (1) the right to sell  
 or dispose of his Tag-Along Shares (as defined in the Stockholders  
 Agreement) pursuant to Subsection 2.5(a) of the Stockholders  
 Agreement without giving effect to Subsection 2.5(b) of the  
 Stockholders Agreement; and (2) a "lock-up" restriction pursuant to  
 Section 2.6 of the Stockholders Agreement which shall be  
 co-extensive with that of Colony.  
  
5. Non-Competition Agreements.  
  
 (a) Each of the Executives who is a party to an employment  
 agreement, in addition to entering into the Stockholders  
 Agreement, shall enter into a non-competition agreement with  
 the Company, pursuant to which such person shall agree, on  
 the terms set forth herein, not to: (i) engage in owning,  
 operating and developing casinos, hotels or race track  
 interests associated or materially competitive with casinos,  
 hotels or race track interests owned directly or indirectly  
 by PHCR (or where PHCR has announced its present intention  
 to develop such properties or interests), (ii) solicit any  
 employee, agent or consultant of the Company to terminate  
 such person's relationship with the Company or (iii) solicit  
 any counterparty to any contract with the Company to  
 terminate such counterparty's contract or other relationship  
 with the Company. Notwithstanding the foregoing, in the case  
 of Xx. Xxxxxxx, (A) the restrictions of subsections 5(a)(i),  
 (ii) and (iii) shall be effective during the period that he  
 serves as a member of the Board of Directors and shall  
 continue, in the case of subsection 5(a)(i), for a period of  
 one year, and in the case of subsection 5(a)(ii) and (iii),  
 for a period of two years, from the date that Xx. Xxxxxxx  
 ceases to be a member of the Board of Directors, (B) the  
 restrictions of subsections 5(a)(i), (ii) and (iii) shall  
 not restrict Xx. Xxxxxxx'x ownership, operation and  
 development of casinos, hotels or race track interests in  
 New Mexico so long as PHCR or any of its affiliates does not  
 own any casinos, hotels or race track interests in New  
 Mexico or in a market outside of New Mexico that competes  
 directly with the markets inside New Mexico, and (C) if PHCR  
 or any of its Affiliates acquires a material interest in or  
 otherwise develops any casinos, hotels or race track  
 interests in New Mexico or in a market outside of New Mexico  
 that competes directly with the markets inside New Mexico,  
 Xx. Xxxxxxx shall be permitted to continue to operate and  
 develop casinos, hotels or race track interests, located in  
 New Mexico and owned or operated in whole or in part by him  
 on the date of such acquisition or development or as to  
 which Xx. Xxxxxxx has announced a present intention to  
 acquire or develop. Notwithstanding the foregoing, in the  
 case of Xx. Xxxxxxxx, the restrictions of subsection 5(a)(i)  
 shall only be effective during the period that he serves as  
 an employee of the Company.  
  
 (b) In the case of each of the Executives (other than Xx.  
 Xxxxxxxx) who is a party to an employment agreement with the  
 Company, the restrictions of subsections 5(a)(i), (ii) and  
 (iii) shall be effective during the period that he serves as  
 an employee of the Company and shall continue to be  
 effective following his termination of employment (i) in the  
 event he is terminated for cause (as determined in his  
 employment agreement) or voluntarily resigns without good  
 reason (if and as defined in his employment agreement) for a  
 period of one year, in the case of subsection 5(a)(i), and,  
 in the case of subsections 5(a)(ii) and (iii) for a period  
 of two years, following such date of termination; or (ii) in  
 the event he is terminated other than for cause or  
 voluntarily terminates employment for good reason, or if the  
 Company does not offer to renew his then existing employment  
 agreement on reasonable terms and such agreement is allowed  
 to expire, then the provisions of subsection 5(a)(i) shall  
 not apply and subsections 5(a)(ii) and (iii) shall apply for  
 a period of two years following the Executive's termination  
 of employment.  
  
 (c) Each of the Executives (other than Xx. Xxxxxxx) who is not a  
 party to an employment agreement, in addition to entering  
 into the Stockholders Agreement, shall enter into a  
 non-competition agreement with the Company, pursuant to  
 which such persons shall agree not to: (i) engage in owning,  
 operating and developing casinos, hotels or race track  
 interests associated or materially competitive with casinos,  
 hotels or race track interests owned directly or indirectly  
 by PHCR (or where PHCR has announced its intention to  
 develop such properties or interests), (ii) solicit any  
 employee, agent or consultant of the Company to terminate  
 such person's relationship with the Company or (iii) solicit  
 any counterparty to any contract with the Company to  
 terminate such counterparty's contract or other relationship  
 with the Company.  
  
 (d) In the case of each of the Executives (other than Xx.  
 Xxxxxxx) who is not a party to an employment agreement with  
 the Company, the restrictions of subsections 5(c)(i), (ii)  
 and (iii) shall be effective during the period that he  
 serves as an employee of the Company and shall continue to  
 be effective following his termination of employment as  
 follows:  
  
 (i) in the event he is terminated for cause (as defined  
 in footnote 3 above) or he voluntarily resigns on or  
 prior to December 31, 2001, the provisions of  
 subsection 5(c)(i) shall apply for a period of one  
 year following such date of termination and the  
 provisions of , subsections 5(c) (ii) and (iii) shall  
 apply for a period of two years following such date  
 of termination.  
 (ii) in the event he is terminated other than for cause  
 after December 31, 2001, the provisions of subsection  
 5(c)(i) shall not apply and the provisions of  
 subsections 5(c)(ii) and (iii) shall apply for a  
 period of two years following such date of  
 termination.  
 (iii) in the event he is terminated for any reason or he  
 resigns after December 31, 2001, the provisions of  
 subsection 5(c)(i) shall not apply and the provisions  
 of subsections 5(c)(ii) and (iii) shall apply for a  
 period of two years following such date of  
 termination.  
  
 (e) In the event that any Executive (other than Xx. Xxxxxxx)  
 that does not have an employment agreement with the Company  
 is terminated or resigns under the circumstances described  
 in Section 5(d)(i) above, then such Executive shall not be  
 entitled to payout of his PHCR Restricted Stock upon  
 termination of employment, but will continue to hold such  
 PHCR Restricted Stock in accordance with the terms thereof.  
  
 (f) Key Managers who are not Executives and who receive New  
 Options, shall, as a condition to receiving such New  
 Options, shall be required to agree not to (i) engage in  
 owning, operating and developing casinos, hotels or race  
 track interests within 100 miles of the principal gaming  
 facility at which such Key Manager was employed, (ii)  
 solicit any employee, agent or consultant of the Company to  
 terminate such person's relationship with the Company or  
 (iii) solicit any counterparty to any contract with the  
 Company to terminate such counterparty's contract or other  
 relationship with the Company. The restrictions contained in  
 this Section 5(f) shall continue for a period of one year  
 from the date of termination of such Key Manager's  
 employment.  
  
 (g) Except to the extent of the specific exceptions applicable  
 to any individual in subsections 5(a) and 5(f) above,  
 reasonable exceptions to the non-competition restrictions  
 will be provided in respect of (i) activities not materially  
 competitive with the specific gaming properties or interests  
 owned directly or indirectly by PHCR (or where PHCR has  
 announced its intention to develop such properties or  
 interests) and (ii) passive ownership of less than 5% of  
 public companies.  
  
6. Employment Agreements. The employment agreements of the Executives  
 that have employment agreements as of the date hereof shall be  
 assumed without modification except to the extent necessary to  
 reflect the terms of this transaction and the structure of the  
 Company and its affiliates. The employment agreements assumed by  
 the Company shall terminate on the respective dates set forth  
 therein. There shall be no obligation, express or implied, of PHCR  
 or the Executives to renew such contracts, and any such renewal  
 shall be on such reasonable terms and conditions as shall be agreed  
 to by the Executive and PHCR.  
  
7. Certain Governance Matters. Subject to licensing and regulatory  
 restrictions, the Board of Directors of PHCR upon consummation of  
 the Merger (the "PHCR Board") shall include X. X. Xxxxxxx, Chairman  
 of the PHCR Board, and Xxxx Xxxxxx as well as Xxxxxx X. Xxxxxxx,  
 Xx. and other nominees determined by Colony (the "Colony  
 Nominees"), provided that if affiliates of Colony designated for  
 the board of directors (other than employees of PHCR and its  
 subsidiaries) would cease to constitute a majority of the board,  
 Messrs. Xxxxxxx and Xxxxxx shall resign from the Board (and any  
 committee thereof) and become non-voting observers until such time  
 as Colony may legally appoint additional Board members under  
 applicable law; provided further that prior thereto, PHCR will take  
 such action as is reasonably necessary to avoid triggering the end  
 of deferral under the Deferred Compensation Agreements between PHCR  
 and Xx. Xxxxxxx and Xx. Xxxxxx, respectively. Xx. Xxxxxxx shall be  
 a member of, and Xx. Xxxxxxx shall be designated as the chairman  
 of, the Executive Committee of the PHCR Board. The PHCR Board shall  
 delegate to the Executive Committee (to the extent permitted under  
 applicable law) substantially all of its powers to govern the  
 business and affairs of the Company. Affiliates of Colony  
 designated for the board of directors (other than PHCR and its  
 subsidiaries) shall also constitute a majority of the compensation  
 committee of the board, if any. Unless otherwise determined by the  
 Colony Nominees, members of the PHCR Board shall not be entitled to  
 any compensation for services as members of the PHCR Board.  
  
8. Disclosure Requirements. In connection with their execution and  
 delivery of this Memorandum of Understanding, the Executives  
 acknowledge and agree to comply with all applicable disclosure  
 requirements relating thereto imposed under Federal and state  
 securities laws.  
  
9. Form of PHCR Common Stock. All issuances hereunder of PHCR Common  
 Stock, including options therefor, shall be comprised of a  
 combination of voting and non-voting securities so that each such  
 class of security constitutes the applicable percentage of all such  
 shares of such class of security outstanding at the time of  
 issuance.  
  
10. Fees and Expenses. The Executives, on the one hand (jointly and  
 severally), and PHCR, on the other hand, shall each be responsible  
 for their respective expenses incurred in connection with the  
 consideration of the contemplated Acquisition Transaction.  
  
11. Binding Agreement; Standard of Conduct. The terms of the agreements  
 herein shall be more fully set forth in definitive documentation,  
 which each of the parties hereto agrees to negotiate in good faith.  
 Subject to the negotiation and execution of such definitive  
 documentation and the reaching of agreement on other matters  
 contemplated but not specifically addressed herein, each of the  
 parties hereto acknowledges and agrees that this Memorandum of  
 Understanding is intended as a binding agreement among them with  
 respect to the matters set forth herein.  
  
12. Parties in Interest. This Memorandum of Understanding shall be  
 binding upon and inure solely to the benefit of each party hereto,  
 and nothing in this Memorandum of Understanding, express or  
 implied, is intended to confer upon any other person any rights or  
 remedies of any nature whatsoever under or by reason of this  
 Memorandum of Understanding. Neither this Memorandum of  
 Understanding nor any of the rights, interests or obligations  
 hereunder shall be assigned, in whole or in part, by operation of  
 law or otherwise by any of the parties without the prior written  
 consent of the other parties, except that PHCR may assign, in its  
 sole discretion, any or all of its rights, interests and  
 obligations under this Memorandum of Understanding to any  
 controlled affiliate of Colony. Subject to the preceding sentence,  
 this Memorandum of Understanding shall be binding upon, inure to  
 the benefit of, and be enforceable by, the parties and their  
 respective successors and assigns.  
  
13. Equitable Adjustment. References herein to numbers of securities to  
 be issued shall be deemed to include such equitable adjustments, if  
 any, as may be required in the event of any subdivision, split,  
 combination or reclassification of such securities or securities  
 into which such securities are exercisable so that the parties  
 hereto entitled to receive such securities shall receive the number  
 of such securities that such parties would have owned or been  
 entitled to receive after the happening of any the events described  
 above had it owned such securities immediately prior to such time.  
  
14. Governing Law. THIS MEMORANDUM OF UNDERSTANDING SHALL BE GOVERNED  
 BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF  
 DELAWARE, WITHOUT REGARD TO ANY APPLICABLE CONFLICTS OF LAW.  
  
  
  
  
 IN WITNESS WHEREOF, each of the parties hereto has executed  
this Memorandum of Understanding as of the date first above written.  
  
  
 PH CASINO RESORTS, INC.  
  
  
 By: /s/ Xxxxxxx X. Xxxxxxx  
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 Name: Xxxxxxx X. Xxxxxxx  
 Title: President  
  
  
STOCKHOLDERS  
  
  
/s/ X.X. Xxxxxxx  
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X. X. XXXXXXX  
  
  
/s/ X. Xxxxxxx Xxxxxxxx  
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X. XXXXXXX XXXXXXXX  
  
  
/s/ Xxxx Xxxxxx  
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