Exhibit 3  
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 MEMORANDUM OF UNDERSTANDING  
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 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 Agreement 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  
  
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 (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, Finnigan 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  
  
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/2/(...continued)  
 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.  
  
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 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  
  
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 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  
  
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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  
  
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 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.  
  
  
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  
  
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 health coverage under Section 4980B(f)(3)(B) of the Code.  
  
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 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, Xxxxxx and  
 Xxxxxxx 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.  
  
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 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.  
  
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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.  
  
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 (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:  
  
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 (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  
  
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 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 Alanis 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.  
  
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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.  
  
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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.  
  
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 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: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_  
 Name: Xxxxxxx X. Xxxxxxx  
 Title: President  
  
  
STOCKHOLDERS  
  
  
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G. XXXXXXX XXXXXXXX  
  
  
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