PUMATECH INC
Form S-3/A
December 11, 2003

As filed with the Securities and Exchange Commission on December 11, 2003

Registration No. 333-110201

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-3

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

PUMATECH, INC.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**77-0349154** **(I.R.S. Employer Identification No.)**

2550 North First Street, San Jose, California 95131

(408) 321-7650

(Address, including zip code, and telephone number, including area

code, of registrant s principal executive offices)

Woodson Hobbs

President and Chief Executive Officer

Pumatech, Inc.

2550 North First Street, San Jose, California 95131 (408) 321-7650

(Name, address, including zip code, and telephone number,

including area code, of agent for service)

COPIES TO:

Elias J. Blawie

Thomas Tobiason

Heller Ehrman White & McAuliffe LLP

2775 Sand Hill Road

Menlo Park, CA 94025

Approximate date of commencement of proposed sale to the public:

As soon as practicable after the effective date of this Registration Statement.

If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. x

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ____________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registrations statement number of the earlier effective registration statement for the same offering. ¨ ____________

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

Calculation of Registration Fee

Title of each class of securities to be registered	**Amount to be registered (1)**	**Proposed maximum offering price per share (2)**	**Proposed maximum aggregate offering price**	**Amount of registration fee**
Common Stock, par value $0.001 (3)	1,093,676	$6.85	$7,491,681	$607(4)

(1) This registration statement shall cover any additional shares of our common stock which become issuable by reason of any stock dividend, stock split, recapitalization or any other similar transaction effected without the receipt of consideration that results in an increase in the number of shares of our outstanding common stock.

(2) Estimated solely for the purpose of computing the amount of the registration fee pursuant to Rule 457(c) under the Securities Act of 1933 based upon the average of the high and low prices of the Common Stock as reported on the Nasdaq National Market on October 31, 2003.

(3) This registration statement also relates to rights to purchase shares of the registrant s Series A Participating Preferred Stock (the Rights) which are attached to all shares of common stock. Until the occurrence of certain prescribed events, the Rights are not exercisable, are evidenced by the certificates for common stock and will be transferable along with and only with the common stock. The value attributable to the Rights, if any, is reflected in the value of the common stock.

(4) Previously paid.

The Company hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the Company shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

EXPLANATORY NOTE

This registration statement contains a prospectus relating to a public offering of an aggregate of 1,093,676 shares of our common stock that are owned by Spontaneous Technology, Inc., a Nevada corporation (Spontec). We issued these shares in connection with our purchase of substantially all of the assets of Spontec which was completed on September 17, 2003. The complete prospectus for this offering follows immediately.

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The information in this prospectus is not complete and may be changed. The selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission becomes effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Subject to Completion, dated December 11, 2003

PROSPECTUS

PUMATECH, INC.

1,093,676 shares of Common Stock

THE SELLING STOCKHOLDERS:	The selling stockholder identified on page 16 of this prospectus is selling 1,093,676 shares of our common stock. We are not selling any shares of our common stock under this prospectus and will not receive any of the proceeds from the sale of shares by the selling stockholder.
OFFERING PRICE:	The selling stockholder may sell the shares of common stock described in this prospectus in a number of different ways and at varying prices. The selling stockholder may be deemed to be an underwriter, as such term is defined in the Securities Act of 1933, as amended. We provide more information about how the selling stockholder may sell its shares in the section titled Plan of Distribution on page 17.
TRADING MARKET:	Our common stock is listed on the Nasdaq National Market under the symbol PUMA. On December 10, 2003, the closing sale price of our common stock, as reported on the Nasdaq National Market, was $4.44 per share.
RISKS:	INVESTING IN OUR COMMON STOCK INVOLVES A HIGH DEGREE OF RISK. SEE RISK FACTORS BEGINNING ON PAGE 1.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is December __, 2003.

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WE HAVE NOT AUTHORIZED ANY DEALER, SALES PERSON OR OTHER PERSON TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS OR ANY PROSPECTUS SUPPLEMENT. YOU MUST NOT RELY ON ANY UNAUTHORIZED INFORMATION. THIS PROSPECTUS IS NOT AN OFFER OF THESE SECURITIES IN ANY STATE WHERE AN OFFER IS NOT PERMITTED. THE INFORMATION IN THIS PROSPECTUS IS CURRENT AS OF DECEMBER [__], 2003. YOU SHOULD NOT ASSUME THAT THIS PROSPECTUS IS ACCURATE AS OF ANY OTHER DATE.

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PROSPECTUS SUMMARY

The following is a summary of our business. You should carefully read the section entitled Risk Factors in this prospectus and our Annual Report on Form 10-K for the year ended July 31, 2003 for more information on our business and the risks involved in investing in our stock.

In addition to the historical information contained in this prospectus, this prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Exchange Act of 1934. These statements may be identified by the use of words such as expects, anticipates, intends, plans and similar expressions. The outcome of the events described in these forward-looking statements is subject to risks and actual results could differ materially. The sections entitled Risk Factors beginning on page 1 of this prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations and Business in our Annual Report and Quarterly Reports contain a discussion of some of the factors that could contribute to those differences.

PUMATECH, INC.

Overview

Pumatech, Inc. develops, markets and supports synchronization, mobile-application development, and mobile-application management/device management software that enables consumers, business professionals and information technology (IT) officers to extend the capabilities of enterprise groupware and vertical applications, handheld organizers/computers, Web-enabled cellular phones, pagers and other wireless or wireline personal communications platforms.

We are a Delaware corporation. Our principal executive offices are located at 2550 North First Street, Suite 500, San Jose, California 95131. Our telephone number at that location is (408) 321-7650 and our website is located at www.pumatech.com. Information contained in our website does not constitute part of this prospectus. References in the prospectus to we, our, us, the Company and Pumatech refer to Pumatech, Inc., a Delaware corporation.

Acquisition of Assets from Spontaneous Technology.

On September 17, 2003, we acquired substantially all of the assets of Spontaneous Technology, Inc. (Spontec). Spontec was incorporated in Nevada in October 1998 and is engaged in the business of developing software for the secure enablement of enterprise applications to wireless devices.

RISK FACTORS

An investment in our common stock involves significant risks. You should carefully consider the risks and uncertainties described below and the other information in or incorporated by reference into this prospectus including our financial statements before deciding whether to buy shares of our common stock. The risks and uncertainties described below are intended to be the ones that are specific to our company or industry and that we deem to be material, but are not the only ones that we face. The trading price of our common stock could decline due to any of these and other risks and uncertainties, and you could lose part or all of your investment.

We have historically incurred losses and these losses may continue in the future. We may not be able to sustain consistent future revenue growth on a quarterly or annual basis, or achieve or maintain profitability.

We have not been profitable since fiscal 1998. Although we have reported sequential revenue growth over the last four quarters, we cannot be certain that this growth will continue at the same rate, or that our revenues will not decline in the future. We have experienced losses of $7.7 million, $34.5 million and $41.8 million for fiscal 2003, 2002 and 2001, respectively. At July 31, 2003, we had an accumulated deficit of $121.7 million. To become

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profitable and sustain profitability, we will need to generate additional revenues to offset our expenses. We may not achieve or sustain our revenue or profit goals and our losses may continue in the future. Because the synchronization market is new and evolving, we cannot accurately predict either the future growth rate, if any, or the ultimate size of the market for our products and services. For example, while the market for smartphones and other wireless mobile devices has experienced growth recently, the market for traditional personal data assistants (PDA) has declined. This decline in traditional PDA sales had a direct impact on sales of our Intellisync products through the retail and online channels, where sales of our synchronization software typically occur at the same time a PDA is purchased, or shortly thereafter. This decline has had a negative impact on our revenues and we expect that the decline in this market may continue. The increase in demand for smartphones and other such devices may not offset the decline in traditional PDA sales. If we cannot achieve profitability or positive cash flows from operating activities, we may be unable to meet our working capital and other payment obligations, which would have a material adverse effect on our business, financial condition and results of operations and the price of our common stock.

Our quarterly revenues and operating results are subject to significant fluctuations, and our stock price may decline if we do not meet the expectations of investors and analysts.

Our quarterly revenues and operating results are difficult to predict and have and may in the future fluctuate significantly from quarter to quarter due to a number of factors, many of which are outside our control. These factors include, but are not limited to:

- a decline in the market for traditional personal data assistants;
- our need to realize our goals with respect to recent and potential future acquisitions;
- our need and ability to generate and manage growth;
- rapid evolution of technology;
- our evolving business model;
- our reliance on international sales and growth
- our ability to penetrate the European market;
- a decline in gross margins;
- the seasonal nature of the market;
- changes in the market for synchronization;

- introduction of new products and services by us or our competitors;
- changes in our mix of sources of revenues;
- the long-term effect of our reduction in operating expenses;
- entrenched and substantial competition; and
- continued difficult political and economic conditions.

Additionally, we generally derive our technology licensing revenues from multi-year contracts with customers that frequently include license fees, professional services fees, royalty payments and maintenance. We typically earn both the license fees and the professional services in the initial one or two quarters subsequent to the signing of a

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contract. We periodically have large professional services implementations that individually contribute as much as 5% or more to quarterly revenue. Combined with related license revenues, total revenue from individual customers in the initial quarters of a contract may exceed the revenues we earn during subsequent periods covered by the contract. To the extent that we do not secure additional contracts with the same customer or secure comparably sized commitments from other customers, we may not be able to achieve our revenue forecasts for future quarters.

There can be no assurance that we will generate sufficient revenue to meet expenses or to operate profitably in the future. Our losses today and the risk of future losses present significant risks to our stockholders. If we cannot achieve profitability or positive cash flows from operating activities, we may be unable to meet our working capital and other payment obligations, which would have a material adverse effect on our business, financial condition and results of operations and the price of our common stock.

Our market changes rapidly due to evolution in technology and industry standards. If we do not adapt to meet the sophisticated needs of our customers, our business and prospects will suffer.

The market for our products and services is characterized by rapidly changing technology, evolving industry standards and frequent new product and service introductions. The traditional personal data assistant market, appears to be declining and may continue to do so, just as sales in competing markets, such as smartphones and other multi-function mobile phones may be increasing. Our future success will depend to a substantial degree on our ability to offer products and services that adapt to these changing markets, incorporate leading technology, address the increasingly sophisticated and varied needs of our current and prospective customers and respond to technological advances and emerging industry standards and practices on a timely and cost-effective basis. Our rapidly evolving market makes it more likely that:

- our technology or products may become obsolete upon the introduction of alternative technologies;
- we may not have sufficient resources to develop or acquire new technologies or to introduce new products or services capable of competing with future technologies or service offerings; and
- we may not be able to respond effectively to the technological requirements of the changing market.

To the extent we determine that new technologies and equipment are required to remain competitive, the development, acquisition and implementation of these technologies and equipment are likely to continue to require significant capital investment by us. Moreover, there can be no assurances that we can develop, market and deliver new products and technology on a timely basis. Sufficient capital may not be available for this purpose in the future, and even if it is available, investments in new technologies may not result in commercially viable technological processes and there may not be commercial applications for such technologies. If we do not develop, acquire and introduce new products and services and achieve market acceptance in a timely manner, our business and prospects may suffer.

Our recent and planned future acquisitions could require significant management attention and prove difficult to integrate with our business, which could distract our management, disrupt our business, dilute stockholder value and adversely affect our operating results.

As part of our strategy, we intend to continue to make investments in complementary companies, products or technologies. We recently acquired Starfish Software, Inc. (in March 2003) and substantially all of the assets of Loudfire, Inc. (in July 2003) and Spontaneous Technology, Inc. (in September 2003). We have also recently announced our intention to acquire Synchrologic, Inc. We may not realize benefits from any of these acquisitions, or from any acquisition we may have in the future. If we fail to integrate successfully our past and future acquisitions, or the technologies associated with such acquisitions, into our company, the revenue and operating results of the combined company could decline. Any integration process will require significant time and resources, and we may not be able to manage the process successfully. If our customers are uncertain about our ability to operate on a combined basis, they could delay or cancel orders for our products. We may not successfully be able to evaluate or utilize the acquired technology and accurately forecast the financial impact of an acquisition transaction, including

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accounting charges. Acquisitions involve a number of difficulties and risks to our business, including, but not limited to, the following:

potential adverse effects on our operating results;

failure to integrate acquired technologies with our existing products and technologies;

failure to integrate management information systems, personnel, research and development and marketing, sales and support operations;

potential loss of key employees from the acquired company;

diversion of management s attention from other business concerns;

disruption of our ongoing business;

potential loss of the acquired company s customers;

failure to realize the potential financial or strategic benefits of the acquisition;

failure to develop further the acquired company s technology successfully, resulting in the impairment of amounts capitalized as intangible assets;

unanticipated costs and liabilities;

incur amortization expenses related to intangible assets (other than goodwill); and

incur impairment charges under Statement of Financial Accounting Standards (SFAS) No. 142, Goodwill and Other Intangible Assets and SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets.

Further, we have issued common stock and paid cash for recent acquisitions and may have to pay cash, incur debt or issue equity securities to pay for any future acquisition, each of which could affect the market price of our common stock. The sale of additional equity or convertible debt could result in dilution to our stockholders. The incurrence of indebtedness would result in increased fixed obligations and could also include covenants or other restrictions that would impede our ability to manage our operations.

If we are unable to consummate the acquisition of Synchrologic or to make additional future acquisitions of mobile computing-related technology companies, we may be unable to compete successfully in the enterprise synchronization market.

Our business strategy is dependent upon making additional acquisitions of mobile computing-related technology companies. For example, our planned acquisition of Synchrologic is intended to be an important addition to our technological ability to serve enterprise customers. Future acquisition candidates may be few in number and may attract offers from companies with greater financial resources than us. We can provide no assurance that we will be able to locate other suitable acquisition targets or that we will be able to complete additional acquisitions. If we are unable to acquire Synchrologic and make additional future acquisitions of mobile computing-related technology companies or build similar technologies in-house, we may be unable to implement our business plan and our ability to compete in the enterprise synchronization market may be adversely affected.

Our investment in goodwill and other intangibles resulting from our acquisitions could become impaired.

As of July 31, 2003, our goodwill and other intangibles amounted to $5,500,000, net of accumulated amortization and reflective of newly acquired intangibles from Starfish and Loudfire. We ceased to amortize our existing goodwill upon our adoption of SFAS No. 142 in the beginning of fiscal 2003. We will amortize approximately $781,000, $739,000, $666,000 and $548,000 of other intangibles in fiscal 2004, 2005, 2006 and 2007, respectively, based on the acquisitions completed as of July 31, 2003. We expect, however, that amortization expense will increase significantly as a result of the acquisition of various intangibles from Spontaneous Technology

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and the pending acquisition of Synchrologic in fiscal 2004. To the extent we do not generate sufficient cash flows to recover the net amount of any investment in goodwill and other intangibles recorded, the investment could be considered impaired and subject to earlier write-off. These impairments of goodwill or other intangible assets could have a negative impact on our results of operations in any given period.

Our business was harmed by the recent slowdown in the economy generally and in the information technology sector in particular. As a result, we have reduced our total operating expenses to a lower level in fiscal 2003 compared with those in fiscal 2002. Continued or worsened conditions may directly harm our business and could result in additional actions to reduce operating expenses, which could harm our business and future prospects further.

Our revenue declined sequentially in the six quarters before the first quarter of fiscal 2003, largely as a result of recent unfavorable economic conditions that caused our customers to delay, decrease or cancel corporate information technology spending. The sales of our products and services is largely dependent on the state of the general economy and upon the condition of the mobile computing-synchronization markets. We may be unable to offset the harm caused by continued or increasing weakness in demand with additional reductions in operating expenses without significantly harming our business.

Our success and ability to compete depends upon our ability to secure and protect patents, trademarks and other proprietary rights.

Our success depends on our ability to protect our proprietary rights to the technologies used in our products and services. In the event that a third party breaches the confidentiality provisions or other obligations in one or more of our agreements or misappropriates or infringes on our intellectual property or the intellectual property licensed to us by third parties, our business would be seriously harmed. To protect our proprietary rights, we rely on a combination of trade secrets, confidentiality and other contractual provisions and agreements, and patent, copyright and trademark laws, which afford us only limited protection. Third parties may independently discover or invent competing technologies or reverse engineer our trade secrets, software or other technology. Furthermore, laws in some countries may not protect our proprietary rights to the same extent as the laws of the United States. Therefore, the measures we take to protect our proprietary rights may not be adequate.

Despite our efforts to protect our proprietary rights and technologies, unauthorized parties may attempt to copy aspects of our products or to obtain and use trade secrets or other information that we regard as proprietary. Policing unauthorized use of our products is difficult, and while we are unable to determine the extent to which piracy of our software products exists, software piracy can be expected to be a persistent problem. Embedded software products, like those we offer, can be especially susceptible to software piracy.

We are and may in the future be subject to litigation that could result in significant costs to us.

Litigation has been and may in the future be necessary to enforce our proprietary rights or to protect our trade secrets or trademarks. These legal proceedings may also divert our management s attention from growing our business. Failure to enforce and protect our intellectual property successfully would substantially harm our business.

For instance, on April 19, 2002, we filed a patent infringement suit against Extended Systems, Inc. in the United States District Court for the Northern District of California. In this suit, we allege that Extended System s server and desktop products infringe on eight of our synchronization-related patents. We are seeking an injunction against future sales of infringing server and desktop products, as well as monetary damages for past sales of the infringing products, of Extended Systems. Extended Systems has denied our charges, raised a number of affirmative defenses to our claims, and requested a declaration from the Court that our eight patents are invalid and not infringed. Litigation is inherently uncertain, and we may not prevail in our claims or defenses. In addition, our litigation against Extended Systems is expensive and time-consuming, and management has been and may in the future be required to spend significant time in the defense of the suit. We incurred approximately $1,200,000 of legal costs relating to all litigation including against Extended Systems during fiscal 2003 and believe that we will continue to incur significant amount of legal costs during fiscal 2004 as a result of any on-going litigation. Extended Systems has no claims or counterclaims against us in this case. However, if we do not prevail in our claims, we might

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be forced to accept an unfavorable settlement or judgment which could require us to pay a substantial amount of Extended Systems legal fees in settlement or upon the determination of these claims. An unfavorable settlement or judgment could also materially harm our ability to use existing intellectual property and severely harm our business as a result.

On December 5, 2002, we filed a patent infringement suit against Synchrologic, Inc. in the United States District Court for the Northern District of California, alleging that Synchrologic s server and desktop products infringe six of our synchronization-related patents. On September 14, 2003, we entered into a definitive agreement to acquire Synchrologic. Upon the execution of the definitive agreement, we and Synchrologic agreed to dismiss the litigation with prejudice as of September 17, 2003, thereby permanently ending this specific suit.

In order to protect our proprietary rights in the future, we may decide to sue additional parties. Any litigation, whether brought by or against us, could cause us to incur significant expenses and could divert a large amount of management time and effort. A claim by us against a third party could, in turn, cause a counterclaim by the third party against us, which could impair our intellectual property rights and harm our business.

If we are forced to defend against third-party infringement claims, whether they are with or without merit or are determined in our favor, we could face expensive and time-consuming litigation, which could distract technical and management personnel, or result in product shipment delays. If an infringement claim is determined against us, we may be required to pay monetary damages or ongoing royalties. Further, as a result of infringement claims either against us or against those who license technology to or from us, we may be required to develop non-infringing intellectual property or enter into costly royalty or licensing agreements. Such royalty or licensing agreements, if required, may be unavailable on terms that are acceptable to us, or at all. If a third party successfully asserts an infringement claim against us and we are required to pay monetary damages or royalties or we are unable to develop suitable non-infringing alternatives or license the infringed or similar intellectual property on reasonable terms on a timely basis, it could significantly harm our business.

If our intellectual property were to be found to be infringing or otherwise invalid, our business would be harmed.

Our business is heavily dependent on our intellectual property. Our patents are an especially important part of our intellectual property and our business. Third parties may assert infringement or unfair competition claims against us. In the past, we have received notices from third parties alleging that our product offerings infringe proprietary rights held by them. We have also received a notice from a customer to which we may have indemnification obligations under some circumstances, informing us that it had received a notice from a third party alleging that the customer s product infringes the third party s proprietary rights. We or our customers may receive other similar notices from third parties in the future. We cannot predict whether third parties will assert claims of infringement against us, or whether any past, present or future claims will prevent us from offering products or operating our business as planned.

Due to the inherently uncertain nature of intellectual property protection and the extremely competitive area in which we operate our business, it is possible that some or all of our intellectual property could be found to be infringing on the intellectual property of others or that our patents could be determined to be invalid in the future, despite our efforts to ensure otherwise. Should some or all of our intellectual property be found to be infringing on the intellectual property of others, our business would be severely harmed because we would not be able to sell our products and we may incur fees, expenses or be forced to pay damage awards. In addition, our business would be harmed if our patents were determined to be invalid.

We face fierce competition in the market for mobile computing synchronization products and services, which could reduce our market share and revenues.

Our market contains few substantial barriers to entry. We believe we will face additional competition from existing competitors and new market entrants in the future. We currently face direct competition with respect to our Intellisync, Enterprise Intellisync, Synchrologic Mobile Suite, Intellisync goAnywhere, Satellite Forms, Intellisync: Phone Edition, TrueSync and Spontaneous Technology s secure Virtual Private Network (sVPN) products. Intellisync retail and enterprise products face competition from Sybase Inc. s iAnywhere, Chapura, Inc. s Pocket

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Mirror, Common Time s Cadenza mNotes, Extended Systems, Inc. s OneBridge Mobile Groupware, IBM Corporation s Lotus Software EasySync Pro, Microsoft, Inc s ActiveSync, Palm Desktop from Palm and others. Satellite Forms faces competition from Adobe Systems, Inc., Aligo, Inc., AppForge, Inc., Covigo, Inc., iConverse, Inc., Metrowerks Code Warrior, mPortal, Inc., Pencel Corporation, Pendragon Software Corporation, Penright Corporation s MobileBuilder and others. Our server-based Mobile Suite software faces competition from Aether Systems, CommonTime, Extended Systems, FusionOne, Inc., InfoSpace, Inc., Infowave Software, JP Mobile, Inc., Microsoft, Openwave, Inc., Sybase, Inc., Synchrologic, Inc. (up until the closing date of the planned acquisition), Wireless Knowledge, Inc., XcelleNet, Inc. and others. Intellisync goAnywhere technology competes with offerings from Symantec Corporation (pcAnywhere) and Expertcity, Inc. (GoToMyPC) and others. Our Intellisync: Phone Edition faces competition from FutureDial, Inc. s SnapSync and Susteen, Inc. s DataPilot and others. In addition to direct competitors like these, we face indirect competition from existing and potential customers that may provide internally developed solutions to each of our technology licensing components. TrueSync and sVPN face competition from Visto Corporation, Seven Networks, Inc. and others.

In addition to direct competition noted above, we face indirect competition from existing and potential customers that may provide internally developed solutions for each of our technology licensing components. As a result, we must educate prospective customers as to the advantage of our products compared to internally developed solutions. We currently face limited direct competition from major applications and operating systems software vendors who may in the future choose to incorporate data synchronization functionality into their operating systems software, thereby potentially reducing the need for original equipment manufacturers to include our products in their notebook and desktop personal computers. For example, Microsoft s inclusion of certain features permitting data synchronization between computers utilizing the Windows 98, Windows 2000, Windows Me, Windows NT or Windows XP operating system may have the effect of reducing revenue from our software if users of these operating systems perceive that their data synchronization needs are adequately met by Microsoft.

Many of our competitors have substantially greater financial, technical and marketing resources, larger customer bases, longer operating histories, greater name recognition and more established relationships in the industry than we do. Our larger competitors may be able to provide customers with additional benefits in connection with their products and costs, including reduced communications costs. As a result, these companies may be able to price their products and services more competitively than we can and respond more quickly to new or emerging technologies and changes in customer requirements. If we are unable to compete successfully against our current or future competitors, we may lose market share, and our business and prospects would suffer.

Our business and prospects depend on, to a significant degree, demand for wireless and other mobile computing devices.

The use of wireless and other mobile computing devices for retrieving, sharing and transferring information among businesses, consumers, suppliers and partners has begun to develop only in recent years. Our success will depend in large part on continued growth in the use of wireless and other mobile computing devices including personal data assistants, handheld computers, smart phones, pagers and other mobile devices. In addition, our markets face critical unresolved issues concerning the commercial use of wireless and other mobile computing devices, including security, reliability, cost, ease of access and use, quality of service, regulatory initiatives and necessary increases in bandwidth availability. Demand for, and market acceptance of, wireless and other mobile computing devices which require our products and services are subject to a high level of uncertainty and are dependent on a number of factors, including:

- the growth in access to, and market acceptance of, new interactive technologies;

- growth in sales of handheld devices, smart phones and other mobile computing devices, supported by our software and growth in wireless network capabilities to match end-user demand and requirements;

emergence of a viable and sustainable market for wireless and mobile computing services;

our product and service differentiation and quality;

the development of technologies that facilitate interactive communication between organizations;

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- increases in bandwidth for data transmission;
- our distribution and pricing strategies as compared with those of our competitors;
- the effectiveness of our marketing strategy and efforts;
- our industry reputation; and
- general industry and economic conditions such as slowdowns in the computer or software markets or the economy in general.

If the market for wireless and other mobile computing devices as a commercial or business medium does not develop, or develops more slowly than expected, our business, results of operations and financial condition will be seriously harmed.

Even if the wireless and mobile computing services market does develop, our products and services may not achieve widespread market acceptance. If our target customers do not adopt, purchase and successfully deploy our other current and planned products and services, our revenue will not grow significantly and our business, results of operations and financial condition will be seriously harmed.

If we fail to maintain our existing relationships or enter into new relationships with original equipment manufacturers, business development organizations and sales distribution channels, our brand awareness, the sales of our products and use of our services would suffer.

Our product and service offerings depend, in large part, on our ability to develop and maintain relationships with original equipment manufacturers and business development organizations that help distribute our products and promote our services. We depend on these relationships to:

- distribute our products to purchasers of mobile devices;
- increase the use of our technology licensing components;
- build brand awareness through product marketing; and
- market our products and services cooperatively.

If the products that these equipment manufacturers or business development organizations sell, or the operating systems upon which these products are based, were to lose popularity, or if any of these companies cease to use our product and service offerings in significant volumes, our product sales would decline and our business would suffer.

We have developed with sales distribution channels and other resellers that allow us to offer our products and services to a much larger customer base than we would otherwise be able to reach through our own direct sales and marketing efforts. Ingram Micro US is our largest distributor and accounted for 10%, 17% and 14% of our total revenue during fiscal 2003, 2002 and 2001, respectively. There are also a significant number of our customers that purchase our products and services through other resellers, and we anticipate they will continue to do so as we expand our product offerings. Because we often sell indirectly through these sales distribution channels and resellers, we cannot control our relationships with end customers. This may diminish our ability to sell our products and services directly to our customers. Our sales, therefore, could also be negatively affected by disruptions in our relationships with resellers or disruptions in the relationships between our resellers and customers. Resellers may also choose not to emphasize our products to their customers. Any of these occurrences could diminish the effectiveness of our distribution channel and lead to decreased sales.

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We are dependent on our international operations for a significant portion of our revenues.

International revenue, primarily from customers based in Japan and Europe, accounted for 36%, 31% and 26% of our revenue in fiscal 2003, 2002 and 2001, respectively. The increase in our international annual revenues from fiscal 2002 to fiscal 2003 accounted for 92% of our total annual revenue increase for fiscal 2003. In the future, we may further expand our international presence. As we continue to expand internationally, we are increasingly subject to risks of doing business internationally, including:

- longer payment cycles and problems in collecting accounts receivable;
- seasonal reductions in business activity during the summer months in Europe and certain other parts of the world;
- unexpected changes in regulatory requirements and tariffs;
- export controls relating to encryption technology and other export restrictions;
- reduced protection for intellectual property rights in some countries;
- political and economic instability, including continuing military conflicts in the Middle East and potential health epidemics;
- difficulties in staffing and managing international operations;
- fluctuations in currency exchange rates, which we do not hedge against;
- potentially adverse tax consequences;
- nonrefundable withholding taxes on royalty income from customers in certain countries, such as Japan and Taiwan;
- an adverse effect on our provision for income taxes based on the amount and mix of income from international customers; and
- exposure to risk of non-payment by customers in other countries with highly inflationary economies.

Our international sales growth will be limited if we, in the future, are unable to expand international sales channel management and support, customize products for local markets, and develop relationships with international service providers, distributors and device manufacturers. Even if we are able to expand international operations successfully, we cannot be certain that we will succeed in maintaining or expanding international market demand for our products.

Geographical expansion and growth, including the establishment of new sales or engineering operations, may negatively affect our engineering operations and cause us to incur significant additional costs and expenses.

We recently established an engineering facility in Sofia, Bulgaria and in the future we may further expand our engineering or sales operations to other geographical areas within the United States and internationally. Our expansion may cause us to incur various costs and expenses, and may place a significant strain upon our operating and financial systems and resources that could materially adversely affect our financial results following such an expansion. We also face significant business risks related to the difficulty in assimilating new operations and the diversion of management s attention from other business. Additionally, if we fail to align employee skills and populations with revenue and market requirements, it may have a material adverse impact on our business and operating results. Moreover, these newly established operations may not contribute significantly to our sales or earnings.

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We may become dependent upon engineers and other development partners located in other countries.

We established a global software development program to assist us in the implementation of custom software and other technology applications. We have shifted the composition of our engineering team to include several international software development partners, the largest of which is Romania-based SoftVision, Inc. Our future engineering development efforts may depend on our ability to maintain strategic relationships with these international partners. Our business relationships often consist of cooperative engineering programs, joint business seminars and cooperation in product development. Many of these relationships may not be contractual and may depend on the continued voluntary cooperation. Divergence in strategy or change in focus by any of our partners may interfere with our ability to develop and support our products, which in turn could harm our business. Further, if our partners enter into strategic alliances with other companies, they could reduce their support of our products. We may jeopardize our existing relationships if we enter into alliances with competitors of our strategic partners. One or more of our partners may use the information they gain from their relationship with us to develop competing products. In addition, our operations could be adversely affected if any of these international partners is affected by volatile economic, political or military conditions in its country or by various restrictions imposed by its country regarding the transfer of technology, the mobile computing industry and business in general.

We are exposed to the risk of product returns and rotations from our distributors and value-added resellers, which are estimated and recorded by us as a reduction in sales.

Although we attempt to monitor and manage the volume of our sales to distributors and resellers, overstocking by our distributors and resellers or changes in their inventory level policies or practices may require us to accept returns above historical levels. In addition, the risk of product returns may increase if the demand for new products we introduce is lower than what we anticipate at the time of introduction. Although we believe that we provide an adequate allowance for sales returns, actual sales returns could exceed our estimated recorded allowance. Any product returns in excess of recorded allowances could result in a material adverse effect on net revenues and operating results. As we introduce more products, timing of sales to end users and returns to us of unsold products by distributors and resellers become more difficult to predict and could result in material fluctuations in quarterly operating results.

If we are unable to provide satisfactory and high quality services through our professional services group, customer satisfaction and demand for our products will suffer.

Many of our customers have been successful in implementing our various technology initiatives without further provision of technical service. However, we believe that building strong relationships with our customers, as well as future growth in our product sales, depends on our ability to provide our customers with professional services, including customer support, training, consulting and initial implementation and deployment of our products when necessary. We have an in-house professional services group and use international software development partners with a workforce that can perform these tasks and that also educates third-party systems integrators in the use of our products so that these systems integrators can provide these services to our customers. If we are unable to develop sufficient relationships with third-party systems integrators and other customers, unable to complete product implementations in a timely manner, or unable to provide customers with satisfactory and quality support, consulting, maintenance and other services, we could face customer dissatisfaction, damage to our reputation, decreased overall demand for our products and loss of revenue.

Future sales of our common stock, including the shares we intend to offer in connection with our proposed acquisition of Synchrologic, may depress our stock price.

If our current stockholders sell substantial amounts of common stock in the public market, the market price of our common stock could fall. In addition, these sales of common stock could impede our ability to raise funds at an advantageous price, or at all, through the sale of securities. We have recently issued shares of our common stock in connection with our acquisitions of the assets of Loudfire and Spontaneous Technology, and we intend to issue additional shares of our common stock in our proposed merger with Synchrologic.

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As of December 5, 2003, we had approximately 49,516,232 shares of common stock outstanding. Assuming that that the maximum number of shares and options are issued and registered by us in connection with all of our recent acquisitions and our planned acquisition of Synchrologic, and assuming that all options to purchase common stock issuable under our stock plans are issued, an aggregate of approximately 28,432,000 additional shares of our common stock will become issued or issuable and freely tradeable within approximately 9 months following the closing of the proposed acquisition of Synchrologic, and an aggregate of 1,227,000 additional shares of our common stock will become issued or issuable and freely tradeable by the end of the 18 month period following such closing. Based on these assumptions, the following is an approximate list of the shares that could become freely tradeable and sold in the public market as a result of option exercises or stock issuances in connection with acquisitions during the first 9 months following the proposed acquisition:

- 3,643,000 shares immediately upon exercise of outstanding option grants;
- 1,228,121 additional shares on or about the effective date of the registration statements for the shares issuable in connection with the Spontaneous Technology and Loudfire transactions;
- 3,786,000 additional shares on or about the closing of the proposed Synchrologic acquisition;
- 2,000,000 additional shares in each of the first 8 months following the closing of the proposed acquisition, such that an aggregate of approximately 16 million additional shares would become freely tradeable in the 8 month period following such acquisition; and
- 3,882,000 additional shares at the end of the 9th month following the proposed acquisition.

We may incur significant stock-based compensation charges related to certain stock options and restricted stock in future periods.

Based on certain accounting standards involving stock compensation, we have incurred and will continue to incur noncash accounting charges related to stock options, including those associated with our cancellation/regrant programs and certain unvested, restricted shares exercised with a full recourse note. Those standards require us to remeasure compensation costs for such options each reporting period based on changes in the market value of the underlying common stock. Depending upon movements in the market value of our common stock, the variable accounting treatment of those stock options may result in significant additional non-cash compensation costs in future periods.

In addition, there has been increasing public debate about the proper accounting treatment for employee stock options. Although we are not currently required to record any compensation expense in connection with option grants that have an exercise price at or above fair market value, it is likely that future laws or regulations will require us to treat stock options as a compensation expense. Any such change in accounting treatment could result in our reporting increased operating expenses, which would decrease any reported net income or increase any reported net loss.

Geopolitical, economic and military conditions, including terrorist attacks and other acts of war, may materially and adversely affect the markets on which our common stock trades, the markets in which we operate, our operations and our profitability.

Terrorist attacks and other acts of war, and any response to them, may lead to armed hostilities and such developments would likely cause instability in financial markets. Armed hostilities and terrorism may directly impact our facilities, personnel and operations which are located in the United States and other countries, as well as those of our clients. Furthermore, severe terrorist attacks or acts of war may result in temporary halts of commercial activity in the affected regions, may harm our reseller relationships and may result in reduced demand for our products. These developments could have a material adverse effect on our business and the trading price of our common stock.

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There are risks associated with our long-term investments that may adversely affect our results of operations.

Historically, we have made direct and indirect investments in privately held companies. We may continue to make strategic investments in the future. There can be no assurance that our investments will bring us a return on investment. In addition, because the strategic investments tend to be in small, start-up technology companies that are at risk for financial failure especially during an economic slowdown, there is a greater risk that the investments might be impaired. In fiscal 2003, for instance, we sold our limited partnership interest in a venture capital fund company at a loss. The sale of the interest allowed us to avoid commitments for further investments in equity instruments of various privately-held companies made through the venture capital fund, many of which had not generated adequate returns.

Our stock price has historically been and may continue to be volatile, which may cause you to lose money and could lead to costly litigation against us that could divert our resources.

Stock markets have recently experienced dramatic price and volume fluctuations, particularly for shares of technology companies. These fluctuations can be unrelated to the operating performance of these companies. Broad market fluctuations may reduce the market price of our common stock and cause you to lose some or all of your investment. These fluctuations may be exaggerated if the trading volume of our common stock is low. In addition, due to the technology-intensive nature and growth rate of our business and the mobile computing synchronization market, the market price of our common stock has in the past and may in the future rise and fall in response to:

- quarterly variations in operating results;
- seasonal fluctuations on product sales;
- announcements of technological innovations;
- announcements of new software or services by us or our competitors;
- acquisitions or strategic alliances by us or by our competitors;
- changes in financial estimates by securities analysts; and
- other events beyond our control, including general market conditions.

The stock market has experienced significant price and volume fluctuations that have particularly affected the trading prices of equity securities of many high technology companies. These fluctuations have often been unrelated or disproportionate to the operating performance of these companies. Furthermore, our operating results and prospects from time to time may be below the expectations of public market analysts and investors. Any negative change in the public s perception of companies in the wireless communications market could depress our stock price regardless of our operating results.

Recently, companies experiencing high volatility or significant drops in their stock prices have faced securities class action lawsuits when the market price of a stock has been volatile. Holders of that stock have often instituted securities class action litigation against the company that issued the stock when such stock declines. If any of our stockholders brought such a lawsuit against us, we could incur substantial costs defending the lawsuit. The lawsuit could also divert the time and attention of our management. Further, any settlement of such a lawsuit could adversely affect us.

We depend on key employees in a competitive market for skilled personnel.

The success of our business will continue to depend upon certain key technical and senior management personnel, including our president and chief executive officer, Woodson Hobbs; senior vice president of sales and marketing, Clyde Foster; chief technology officer, John Stossel; vice president of finance and administration and chief accounting officer, J. Keith Kitchen; and senior vice president of products and services, Mehdi Maghsoodnia, many of whom would be extremely difficult to replace. Following our proposed acquisition of Synchrologic, we

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expect that Said Mohammadioun will become a key employee of Pumatech. Competition for such personnel is intense, and there can be no assurance that we will be able to retain our existing key managerial, technical, or sales and marketing personnel. The loss of these officers and other or key employees in the future might adversely affect our business and impede the achievement of our business objectives.

We believe our ability to achieve increased revenues and to develop successful new products and product enhancements will depend in part upon our ability to attract and retain highly skilled sales and marketing and qualified product development personnel. In addition, competition for employees in our industry and geographic location could be intense. We may not be able to continue to attract and retain skilled and experienced personnel on acceptable terms. Our ability to hire and retain such personnel will depend upon our ability to raise capital or achieve increased revenue levels to fund the costs associated with such personnel. Failure to attract and retain key personnel will adversely affect our business.

Increasing government regulation could cause demand for our products and services to grow more s;million variable-rate mortgage debt on the Courtyard Manhattan / Fifth Avenue with $51 million of fixed-rate mortgage debt; and

Follow-on offering of 5,750,000 shares of common stock of the Company at $16.90 per share, with approximately $96.9 million of net proceeds to the Company.

The pro forma statement of operations for the year ended December 31, 2005 excludes the pre-acquisition operating results of the SpringHill Suites Atlanta Buckhead since it was opened on July 1, 2005 and has no historical operating results. The accompanying pro forma financial information reflects the preliminary application of purchase accounting to the acquisitions of the Vail Marriott, the Capital Hotel Investment Portfolio, the Oak Brook Hills Marriott Resort, the Orlando Airport Marriott, the Chicago Marriott, the Westin Atlanta North, and the Conrad Chicago. The preliminary purchase accounting may be adjusted if any of the assumptions underlying the purchase accounting change. The unaudited pro forma financial information as of and for the period ended September 8, 2006 is presented as if these transactions had occurred on January 1, 2006. The unaudited pro forma consolidated statement of operations for the year ended December 31, 2005 is presented as if these transactions had occurred on January 1, 2005.

The unaudited pro forma financial information and related notes are presented for informational purposes only and do not purport to represent what our results of operations would actually have been if the transactions had in fact occurred on the date discussed above. They also do not project or forecast our results of operations for any future date or period.

The unaudited pro forma financial information should be read together with our historical financial statements and related notes and with the information set forth under Management s Discussion and Analysis of Financial Condition and Results of Operations included in our previous reports filed with the Commission. The pro forma adjustments are based on available information and upon assumptions that we believe are reasonable. However, we cannot assure you that actual results will not differ from the pro forma information and perhaps in material and adverse ways.

DIAMONDROCK HOSPITALITY COMPANY

Pro Forma Consolidated Balance Sheet
September 8, 2006

	Historical	A Conrad Chicago	B Follow-on Offering	Pro Forma
ASSETS				
Property and equipment, net	$ 1,324,903,207	$ 116,600,000	$	$ 1,441,503,207
Deferred financing costs, net	3,450,127			3,450,127
Restricted cash	27,070,515	1,741,648		28,812,163
Due from hotel managers	42,828,456	(307,927)		42,520,529
Favorable lease asset, net	10,226,673			10,226,673
Prepaids and other assets	20,608,389	(10,000,000)		10,608,389
Cash and cash equivalents	93,082,205	(108,033,721)	96,925,000	81,973,484
Total assets	$ 1,522,169,572	$	$ 96,925,000	$ 1,619,094,572
LIABILITIES AND SHAREHOLDERS EQUITY				
Liabilities:				
Mortgage debt, at face amount	$ 662,148,395	$	$	$ 662,148,395
Debt premium	2,670,227			2,670,227
Total debt	664,818,622			664,818,622
Deferred income related to key money	11,604,401			11,604,401
Unfavorable contract liabilities, net	88,371,703			88,371,703
Due to hotel managers	22,888,703			22,888,703
Dividends declared and unpaid	12,835,514			12,835,514
Accounts payable and accrued liabilities	31,437,386			31,437,386
Total other liabilities	167,137,707			167,137,707
Shareholders Equity:				
Common stock	704,416		57,500	761,916
Additional paid-in capital	728,867,133		96,867,500	825,734,633
Accumulated deficit	(39,358,306)			(39,358,306)
Total shareholders equity	690,213,243		96,925,000	787,138,243
Total liabilities and shareholders equity	$ 1,522,169,572	$	$ 96,925,000	$ 1,619,094,572

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
As of September 8, 2006

The accompanying unaudited Pro Forma Consolidated Balance Sheet as of September 8, 2006 is based on the Historical Consolidated Balance Sheet as of September 8, 2006, as adjusted to assume that the following occurred on September 8, 2006:

Follow-on offering of 5,750,000 shares of common stock of the Company at $16.90 per share, with approximately $96.9 million of net proceeds to the Company after deduction of $250,000 of offering costs.

The acquisition of the Conrad Chicago for total consideration of $118.0 million.

In the opinion of the Company s management, all material adjustments to reflect the effects of the preceding transactions have been made. The accompanying unaudited Pro Forma Consolidated Balance Sheet as of September 8, 2006 is presented for illustrative purposes only and is not necessarily indicative of what the actual financial position would have been had the transactions described above occurred as of September 8, 2006 nor does it purport to represent the future financial position of the Company.

Notes and Management Assumptions:

A Represents the adjustment to record the acquisition accounting of the Conrad Chicago as follows:

Record property and equipment at fair value of $116,600,000
Record restricted cash paid for of $1,741,648
Record reduction of due from hotel managers of $307,927
Record reduction of other assets of $10,000,000
Record cash paid for the acquisition of $108,033,721

B Represents the adjustment to record the follow-on offering of 5,750,000 shares of common stock of the Company at $16.90 per share.

DIAMONDROCK HOSPITALITY COMPANY

Pro Forma Consolidated Statement of Operations
Period from January 1, 2006 to September 8, 2006

	Historical	C Chicago Marriott	C Westin Atlanta North	C Conrad Chicago	D Depreciation Adjustment	E TRS Income Taxes	F Debt Interest Expense	G Repaid / Refinanced Debt Interest Expense	Pro Forma
REVENUES									
Rooms	$ 212,593,189	$ 10,622,479	$ 4,254,929	$ 11,719,124	$	$	$	$	$ 239,189,721
Food and beverage	92,065,252	5,092,530	2,130,622	3,360,098					102,648,502
Other	18,329,885	485,749	222,236	309,513					19,347,383
Total revenues	322,988,326	16,200,758	6,607,787	15,388,735					361,185,606
OPERATING EXPENSES									
Rooms	49,292,789	3,190,630	1,007,425	3,205,111					56,695,955
Food and beverage	62,141,105	3,312,180	1,314,500	2,845,854					69,613,639
Management fees and other hotel expenses	121,397,755	7,013,658	2,207,360	6,379,849					136,998,622
Depreciation and amortization	33,922,175				5,923,625				39,845,800
Corporate expenses	8,025,371								8,025,371
Total operating expenses	274,779,195	13,516,468	4,529,285	12,430,814	5,923,625				311,179,387
OPERATING PROFIT	48,209,131	2,684,290	2,078,502	2,957,921	(5,923,625)				50,006,219
OTHER EXPENSES (INCOME)									
Interest income	(2,686,501)								(2,686,501)
Interest expense	24,189,649						3,330,419	(268,242)	27,251,826
Total other expenses (income)	21,503,148						3,330,419	(268,242)	24,565,325
INCOME (LOSS) BEFORE INCOME TAXES	26,705,983	2,684,290	2,078,502	2,957,921	(5,923,625)		(3,330,419)	268,242	25,440,894
Income tax (benefit) provision	1,972,491					164,693			2,137,184
NET INCOME (LOSS)	$ 24,733,492	$ 2,684,290	$ 2,078,502	2,957,921	$ (5,923,625)	$ (164,693)	$ (3,330,419)	$ 268,242	$ 23,303,710

Calculation of Basic and Diluted EPS (H)	
Net Income	23,303,710
Weighted Average Number of Shares	77,058,411
Basic and Diluted Earnings per Share	**0.30**

Notes to Pro Forma Consolidated Statement of Operations
for the Period from January 1, 2006 to September 8, 2006

The accompanying unaudited Pro Forma Consolidated Statement of Operations for the period ended September 8, 2006 is based on our Historical Consolidated Statement of Operations for the year to date period ended September 8, 2006, adjusted to assume that the following occurred on January 1, 2006:

The acquisition of the following hotels for total consideration of:

Hotel	
Chicago Marriott	$ 310,416,000
Westin Atlanta North	61,506,000
Conrad Chicago	118,034,000
Total	$ 489,956,000

The refinancing of the $23 million variable-rate mortgage debt on the Courtyard Manhattan / Fifth Avenue with $51 million of fixed-rate mortgage debt.

In the opinion of our management, all material adjustments to reflect the effects of the preceding transactions have been made. The accompanying unaudited Pro Forma Consolidated Statement of Operations for the period ended September 8, 2006 is presented for illustrative purposes only and is not necessarily indicative of what the actual results of operations would have been had the transactions described above occurred on January 1, 2006, nor does it purport to represent our future results of operations.

Notes and Management Assumptions:

C Represents the adjustment to record historical revenues and operating expenses associated with the 2006 acquisitions of the following hotels:

Chicago Marriott

Westin Atlanta North

Conrad Chicago

D Reflects the adjustment to include the depreciation and amortization resulting from the 2006 hotel acquisitions as follows:

Hotel	
Chicago Marriott	$ 2,337,866
Westin Atlanta North	805,904
Conrad Chicago	2,779,855
Total	$ 5,923,625

E Reflects the adjustment to our historical income tax provision to reflect the pro forma tax provision of our Taxable REIT Subsidiary assuming the TRS leases were in place as of January 1, 2006

F Reflects the adjustment to include interest expense incurred for mortgage debt relating to the Chicago Marriott and the unused facility fee under the $75 million senior secured credit facility.

G Reflects the adjustment to reduce interest expense by $705,301 for interest of the senior secured credit facility that was repaid with the proceeds from the follow-on offering, by $165,873 for interest of the bridge loan for Chicago Marriott that was repaid with the proceeds form the follow-on offering and by $591,842 for interest and deferred financing cost amortization of the $23 million variable rate Courtyard Manhattan / Fifth Avenue mortgage debt which was repaid in conjunction with the Courtyard Manhattan / Fifth Avenue refinancing. The adjustment was offset by $1,194,774 of interest expense on the $51 million fixed rate

Courtyard Manhattan / Fifth Avenue mortgage debt which was entered in conjunction with the Courtyard Manhattan / Fifth Avenue refinancing.

H The shares used in the basic and diluted earning per share calculation include the following:

Common shares outstanding at September 8, 2006	70,441,632
Unvested restricted shares held by management and employees	461,527
IPO share grants held by corporate officers	405,252
Shares issued in follow on offering	5,750,000
Total basic and diluted	77,058,411

DIAMONDROCK HOSPITALITY COMPANY

Pro Forma Consolidated Statement of Operations
For the Year Ended December 31, 2005

	Historical	I Torrance	I Vail Marriott	I Capital Hotel Investment Portfolio	I Oak Brook	I Orlando Airport Marriott	I Chicago Marriott
REVENUES							
Rooms	$ 151,755,924	$ 164,260	$ 8,598,220	$ 44,861,450	$ 4,979,713	$ 13,896,815	$ 57,347,529
Food and beverage	63,261,282	79,212	2,826,256	24,759,444	6,778,277	7,327,578	24,673,633
Other	14,433,057	6,092	1,314,107	4,535,714	1,951,152	652,722	2,823,771
Total revenues	229,450,263	249,564	12,738,583	74,156,608	13,709,142	21,877,115	84,844,933
OPERATING EXPENSES							
Rooms	37,432,635	41,899	1,688,374	10,003,296	1,428,403	3,254,493	13,726,458
Food and beverage	47,281,237	54,368	2,260,744	17,308,279	3,561,517	4,476,504	15,179,962
Management fees and other hotel expenses	96,555,386	90,156	4,252,765	25,446,651	6,510,083	7,049,898	34,969,034
Depreciation and amortization	27,590,234						
Corporate expenses	13,461,528						
Total operating expenses	222,321,020	186,423	8,201,883	52,758,226	11,500,003	14,780,895	63,875,454
OPERATING PROFIT	7,129,243	63,141	4,536,700	21,398,382	2,209,139	7,096,220	20,969,479
OTHER EXPENSES (INCOME)							
Interest income	(1,548,635)						
Interest expense.	17,367,079						
Total other expenses (income)	15,818,444						
INCOME (LOSS) BEFORE INCOME TAXES	(8,689,201)	63,141	4,536,700	21,398,382	2,209,139	7,096,220	20,969,479
Income tax benefit	(1,353,261)						
NET INCOME (LOSS)	$ (7,335,940)	$ 63,141	$ 4,536,700	$ 21,398,382	$ 2,209,139	$ 7,096,220	$ 20,969,479

DIAMONDROCK HOSPITALITY COMPANY

Pro Forma Consolidated Statement of Operations (Continued)
For the Year Ended December 31, 2005

	I Westin Atlanta North	I Conrad Chicago	J Depreciation Adjustment	K TRS Income Taxes	L Mortgage Debt Interest Expense	M Repaid / Refinanced Mortgage Debt Interest Expense	Pro Forma
REVENUES							
Rooms	$ 11,262,134	$ 15,977,000	$	$	$	$	$ 308,843,045
Food and beverage	6,655,719	5,112,000					141,473,401
Other	736,579	967,000					27,420,194
Total revenues	18,654,432	22,056,000					477,736,640
OPERATING EXPENSES							
Rooms	2,767,190	3,894,000					74,236,748
Food and beverage	4,186,295	4,173,000					98,481,906
Management fees and other hotel expenses	6,817,000	7,465,000					189,155,973
Depreciation and amortization			28,491,777				56,082,011
Corporate expenses							13,461,528
Total operating expenses	13,770,485	15,532,000	28,491,777				431,418,166
OPERATING PROFIT	4,883,947	6,524,000	(28,491,777)				46,318,474
OTHER EXPENSES (INCOME)							
Interest income							(1,548,635)
Interest expense.					22,357,240	(550,233)	39,174,086
Total other expenses (income)					22,357,240	(550,233)	37,625,451
INCOME (LOSS) BEFORE INCOME TAXES	4,883,947	6,524,000	(28,491,777)		(22,357,240)	550,233	8,693,023
Income tax benefit				1,101,293			(251,968)
NET INCOME (LOSS)	$ 4,883,947	$ 6,524,000	$ (28,491,777)	$ (1,101,293)	$ (22,357,240)	$ 550,233	$ 8,944,991

Calculation of Basic and Diluted EPS (N)	
Net Income	$ 8,944,991
Weighted Average Number of Shares	77,058,411
Basic and Diluted Earnings per Share	**0.12**

Notes to Unaudited Pro Forma Consolidated Statement of Operations
For The Year Ended December 31, 2005

The accompanying unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2005 is based on our Historical Consolidated Statement of Operations for the year ended December 31, 2005, adjusted to assume that the following occurred on January 1, 2005:

The acquisition of the following hotels for total consideration of:

Hotel	
Torrance Marriott	$ 72,015,000
Vail Marriott	64,930,000
Capital Hotel Investment Portfolio	314,866,000
Oak Brook Hills Marriott Resort	65,747,000
Orlando Airport Marriott	71,604,000
Chicago Marriott	310,416,000
Westin Atlanta North	61,506,000
Conrad Chicago	118,034,000
Total	$ 1,079,118,000

Repayment of approximately $44 million of mortgage debt related to the Torrance Marriott and $20 million of mortgage debt relating to the Lodge at Sonoma, a Renaissance Resort & Spa.

Interest on the $62.5 million mortgage debt related to the Frenchman s Reef & Morning Star Marriott Beach Resort.

Interest on the $82.6 million mortgage debt related to the Marriott Los Angeles Airport and $57.4 million mortgage debt on the Renaissance Worthington Hotel.

Interest on the $59 million mortgage debt on the Orlando Airport Marriott.

Repayment of the $12.0 million outstanding as of December 31, 2005 on the senior secured credit facility with proceeds from the follow-on offering.

Interest on the $220 million mortgage debt related to the acquisition of the Chicago Marriott.

The refinancing of the $23 million variable-rate mortgage debt on the Courtyard Manhattan / Fifth Avenue with $51 million of fixed-rate mortgage debt.

In the opinion of our management, all material adjustments to reflect the effects of the preceding transactions have been made. The accompanying unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2005 is presented for illustrative purposes only and is not necessarily indicative of what the actual results of operations would have been had the transactions described above occurred on January 1, 2005, nor does it purport to represent our future results of operations. The accompanying pro forma statement of operations for the year ended December 31, 2005 excludes the pre-acquisition operating results of the SpringHill Suites Atlanta Buckhead since it was opened on July 1, 2005 and has no historical operating results.

Notes and Management Assumptions:

I Represents the adjustment to record historical revenues and operating expenses associated with the 2006 and 2005 acquisitions of the following hotels:

Torrance Marriott

Vail Marriott

Capital Hotel Investment Portfolio

Oak Brook Hills Marriott Resort

Orlando Airport Marriott

Chicago Marriott

Westin Atlanta North

Conrad Chicago

J Reflects the adjustment to include the depreciation and amortization resulting from the 2006 and 2005 hotel acquisitions as follows:

Hotel	
Torrance Marriott	$ 51,663
Vail Marriott	1,108,399
Capital Hotel Investment Portfolio	4,979,981
Oak Brook Hills Marriott Resort	1,934,359
Orlando Airport Marriott	4,170,057
Chicago Marriott	10,129,400
Westin Atlanta North	2,411,444
Conrad Chicago	3,706,474
Total	$ 28,491,777

K Reflects the adjustment to our historical income tax provision to reflect the pro forma tax provision of our Taxable REIT Subsidiary assuming we had elected REIT status and the TRS leases were in place as of January 1, 2005. Our Taxable REIT Subsidiary s pro forma pre-tax loss was $4.9 million for the year ended December 31, 2005. The pro forma income tax provision was calculated using our Taxable REIT Subsidiary s historical effective income tax rate. The pro forma income tax provision includes the $1.4 million income tax charge as a result of our REIT election in 2005 that is reflected in the historical financial statements.

L Reflects the adjustment to include interest expense incurred for mortgage debt relating to the Capital Hotel Investment Portfolio, the Frenchman s Reef & Morning Star Marriott Beach Resort, the Orlando Airport Marriott, and the Chicago Marriott. The adjustment also includes the unused facility fee on the $75 million senior secured credit facility.

M Reflects the adjustment to reduce interest expense by $1,594,190 for interest and deferred financing cost amortization of the mortgage debt related to the Torrance Marriott, which was repaid with the proceeds of our initial public offering, by $691,837 for interest and deferred financing cost amortization of the mortgage debt related to the Lodge at Sonoma, a Renaissance Resort & Spa which was repaid with the proceeds of our initial public offering, offset by an increase of interest expense by $1,872,795 relating to the refinancing of the Courtyard Fifth Avenue mortgage debt. The Courtyard Manhattan / Fifth Avenue adjustment consists of (a) $3,421,183 of interest expense and deferred financing cost amortization on the $51 million fixed rate mortgage debt, less (b) $1,548,388 of interest expense and deferred financing cost amortization recorded in the historical financial statements related to the $23 million variable rate mortgage debt. Adjustment also reflects the $137,000 reduction of interest expense included in the historical financial statements related to the $12 million draws under the senior secured credit facility that were repaid with proceeds from the follow-on offering.

N The shares used in the basic and diluted earning per share calculation include the following:

Common shares outstanding at September 8, 2006	70,441,632
Shares issued in follow-on offering	5,750,000
Unvested restricted shares held by management and employees	461,527
IPO share grants held by corporate officers	405,252
Total basic and diluted	77,058,411

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

DIAMONDROCK HOSPITALITY COMPANY

Date: November 21, 2006

By: /s/ Michael D. Schecter

Michael D. Schecter
General Counsel and Secretary

EXHIBIT INDEX

Exhibit No.	Description
23.1	Consent of BDO Seidman, LLP