[DATARAM LOGO]

# DATARAM CORPORATION

# 2009 ANNUAL REPORT

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[PICTURE OF JOHN FREEMAN]

## President's Letter

To Our Shareholders:

The steady decline in global economic conditions has presented increasing challenges and an unsettled business environment. Customers have reduced or deferred capital spending. Consumer confidence and spending have dropped. These factors and others have negatively impacted Dataram's business in 2009 while also presenting opportunities which would not have been available in a different economy. As a result, we have adapted our plans and revised our implementation to take advantage of these changing times.

The Board of Directors and I outlined and finalized a growth and diversification strategy for Dataram one year ago. The foundation of this strategy was to:

- add new and complementary products to our offerings portfolio
- increase internal investment in new product development
- acquire and license intellectual property
- return our traditional memory solutions business to a growth business

Although we had to modify our plans in response to the global economic downturn, we have still made significant progress toward improving the Company and positioning it for growth as the economy begins to turn. This has required significant changes and increased investments in research, development, manufacturing, sales and support. I would now like to report on our achievements and our plans for the future.

During Fiscal 2009, we have made changes to improve our business position and results. Some of the key changes include:

Five of the seven top executives are new to Dataram this year. They bring new leadership and skills to sales, marketing, product development and manufacturing. Each of our new executives has a strong entrepreneurial spirit and has managed highly successful businesses in their previous positions. Our sales and marketing executives have extensive management experience with two of the world's largest and most successful computer companies. We have made these changes while retaining two highly skilled executives who have been responsible for Dataram's long history of high quality engineering, manufacturing, procurement and finance.

We have a new go to market strategy for our memory solutions business. This expands our traditional direct sales model by adding partners and e-sales. We have Alliance Partners for corporations, Reseller and Distributor Partners, Government Partners and Individual Partners.

Our direct sales team works closely with our inside sales team and focuses exclusively on major accounts in the Government, Finance, Oil & Gas and Pharmaceutical industries. Our Government industry initiative is new to Dataram this year. We have partnership agreements with key Government contractors and resellers and are positioned for success in 2010. Major clients' needs in other industries are addressed by our direct geographic sales team.

We have created and published a new corporate website incorporating new features, functions, content and branding which reflects our revitalized corporate strategy. These improvements have made a favorable and measurable impact on how customers, investors, business partners and employees view our company. The new interactive e-commerce capabilities have already generated business leads and sales in just a few short months. Our website now represents a viable and important instrument to enhance Dataram's market position and our ability to compete.

A by-product of the numerous marketing initiatives we have deployed is increased and more favorable market awareness. One measure of this is the more active monitoring and responses we receive to our press releases by analysts and investors.

On March 31, 2009, we acquired certain assets of Micro Memory Bank, Inc., a prominent memory module company offering legacy to advanced solutions in laptop, desktop and server memory products. This acquisition positions the Company to offer our customers a more comprehensive product line and supports our strategy to grow our memory solutions business as well as expand our routes to market through e-tail and web stores.

The development of our new storage product line continues to progress. In Fiscal 2009 we invested approximately $1.5 million in this new business. Our storage products are in beta test at multiple customer sites, consistently delivering very significant performance benefits and cost savings. We are continuing to make investments in our storage products and are preparing for a formal launch later this calendar year.

In Fiscal 2009 Dataram introduced its first software product, the Dataram RAMDisk. In tandem with our storage systems product lines, we are continuing to develop stand-alone software to support both our memory business and our storage business.

We have responded to the current economic conditions by increasing our operational efficiencies and reducing our cost structure.

In fiscal 2010, our task is to fully implement the strategies and initiatives we began in 2009. We have new products, routes to market and executives. Each is making a contribution toward returning Dataram to a growth business.

On behalf of the Company's Board of Directors and management team, I would like to thank our shareholders for their continued support and our employees for their hard work and dedication.

July 10, 2009

John H. Freeman
President and Chief Executive Officer



Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Dataram is a developer, manufacturer and marketer of large capacity memory products primarily used in high performance network servers and workstations. The Company provides customized memory solutions for original equipment manufacturers (OEMs) and compatible memory for leading brands including Dell, HP, IBM, and Sun Microsystems. The Company also manufactures a line of memory products for Intel and AMD motherboard based servers.

The Company's memory products are sold worldwide to OEMs, distributors, value-added resellers and end-users. The Company has two manufacturing facilities in the United States with sales offices in the United States, Europe and Japan.

The Company is an independent memory manufacturer specializing in high capacity memory and competes with several other large independent memory manufacturers as well as the OEMs mentioned above. The primary raw material used in producing memory boards is dynamic random access memory (DRAM) chips. The purchase cost of DRAMs is the largest single component of the total cost of a finished memory board. Consequently, average selling prices for computer memory boards are significantly dependent on the pricing and availability of DRAM chips.

Results of Operations

The following table sets forth consolidated operating data expressed as a percentage of revenues for the periods indicated.

| Years Ended April 30, | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenues | 100.0% | 100.0% | 100.0% |
| Cost of sales | 67.4 | 61.6 | 76.6 |
| Gross profit | 32.6 | 38.4 | 23.4 |
| Engineering | 4.7 | 4.1 | 3.2 |
| Research and development | 5.9 | 0 | 0 |
| Selling, general and administrative | 42.7 | 28.6 | 25.0 |
| Earnings (loss) from operations | (20.7) | 5.7 | (4.8) |
| Other income, net | 0.9 | 2.8 | 8.0 |
| Earnings (loss) before income tax expense | (19.8) | 8.5 | 3.2 |
| Income tax expense (benefit) | (7.7) | 3.3 | 1.2 |
| Net earnings (loss) | (12.1) | 5.2 | 2.0 |

Fiscal 2009 Compared With Fiscal 2008

Revenues for fiscal 2009 were $25.9 million compared to $30.9 million in fiscal 2008. There has been a softening in demand due to the weakening economy. Many of our customers have curtailed or temporarily suspended their capital spending while they adapt their business plans to the current environment. In response to these conditions, the Company instituted a reduction in workforce in the fourth quarter of fiscal 2009. Additionally, the Company has increased its allowance for doubtful accounts since, in management's opinion, there is increasingly higher risk inherent in carrying accounts receivable in the current economic environment. Also, as previously stated, the Company's selling prices are significantly dependent on the pricing and availability of DRAM chips. The Company's products utilize DRAMs of varying capacities, organizations and package types. The change in the purchase cost of specific DRAMs over time are not necessarily uniform or even move in the same direction. Over the last fiscal year, the Company's purchase cost of the primary DRAMs used in our products declined by over 44 percent. This resulted in a larger than anticipated reduction in our selling prices as we passed our cost savings through to our customers. Consequently, the Company's selling prices for similar products when compared on a year over year basis were lower than expected.

Revenues for the fiscal years ended April 30, 2009 and 2008 by geographic region were:

| | Year ended April 30, 2009 | Year ended April 30, 2008 |
|---|---|---|
| United States | $ 19,088,000 | $ 22,270,000 |
| Europe | 4,793,000 | 5,875,000 |
| Other (principally Asia Pacific Region) | 2,016,000 | 2,748,000 |
| Consolidated | $ 25,897,000 | $ 30,893,000 |

Cost of sales was $17.4 million in fiscal 2009 or 67.4 percent of revenues compared to $19.0 million or 61.6 percent of revenues in fiscal 2008. Fluctuations in cost of sales as a percentage of revenues are not unusual and can result from many factors, some of which are a rapid change in the price of DRAMs, or a change in product mix possibly resulting from a large order or series of orders for a particular product or a change in customer mix.

Engineering expenses in fiscal 2009 were $1.2 million, versus $1.3 million in fiscal 2008.

Research and development expenses in fiscal 2009 were $1.5 million, versus nil in fiscal 2008. In the current fiscal year, the Company has implemented a strategy to introduce new and complementary products into its offerings portfolio. The Company is currently focusing on the development of certain high performance storage products. As part of that strategy, in January 2009, the Company entered into a software purchase and license agreement with another company whereby the Company has the exclusive right to purchase specified software for a price of $900,000 plus a contingent payment of $100,000. Research and development expense includes $300,000 of expense related to the initial payment for the software purchase and license. The storage product, which incorporates the software, is currently under development and is not deemed saleable at the present time. Additionally, approximately $121,000 of research and development expense recorded in this year's fiscal first quarter represented a non-cash expense for the fair value of stock options issued to a privately held company to acquire certain patents and other intellectual property. These patents and other intellectual property were deemed to have no alternative future use when acquired and we had an uncertainty in receiving future economic benefits from them.

Selling, general and administrative(S,G&A)expenses were $11.1 million in fiscal 2009 versus $8.8 million in fiscal 2008. S,G&A expense in fiscal 2009 includes a charge of approximately $716,000 related to a retirement agreement entered into with the Company's former chief executive officer. Of this amount, approximately $660,000 relates to payments defined in the agreement and the balance consists primarily of legal fees incurred by the Company associated with this matter. Fiscal 2009 expense also includes $418,000 of severance for terminated employees and a $138,000 charge as a result of one of the Company's foreign customers entering receivership. Additionally, the Company charged S,G&A expense to increase its allowance for doubtful accounts by $50,000. Management concluded that the increase in the reserve was warranted given the inherent increase in risk level of carrying accounts receivable, due to the recent, well-publicized increase in economic uncertainty. Fiscal 2009 S,G&A expense includes approximately $161,000 associated with the operations of an acquired business (See Note 2 in the Notes to Consolidated Financial Statements). The remaining increase in S,G&A expense is primarily attributable to planned increases in the Company's sales and marketing infrastructure which occurred prior to the current economic downturn. Subsequently, in the fourth quarter of fiscal 2009, the Company took actions to reduce its S,G&A expenses in response to the changed economic environment. Stock-based compensation expense is recorded as a component of S,G&A expense and totaled $533,000 in fiscal 2009 versus $297,000 in fiscal 2008.



Other income, net for fiscal year 2009 totaled $223,000 versus $868,000 in fiscal 2008. Other income in fiscal 2009 includes $294,000 of net interest income. Additionally, other income includes $68,000 of foreign currency transaction losses, primarily as a result of the EURO weakening against the US dollar.  Other income in Fiscal 2008 includes $748,000 of net interest income and $120,000 of foreign currency transaction gains, primarily as a result of the EURO strengthening relative to the US dollar.

Income tax expense (benefit) for fiscal 2009 was a benefit of $2.0 million versus $1.0 million of tax expense in fiscal 2008. The Company's effective tax rate for financial reporting purposes in fiscal 2009 was approximately 39%. The Company has Federal and State net operating loss (NOL) carryforwards of approximately $5,578,000 and $3,981,000, respectively. These can be used to offset future taxable income and expire between 2023 and 2029 for Federal tax purposes and 2016 and 2029 for State tax purposes. In April 2009, after review of its operating results and operating plans, management concluded that it remains more likely than not that the Company will utilize all of its NOL carry-forwards.

Fiscal 2008 Compared With Fiscal 2007

Revenues for fiscal 2008 were $30.9 million compared to $38.4 million in fiscal 2007. The decline in revenues came primarily from decreased selling prices. In fiscal 2008, the Company's purchase cost of the primary DRAMs used in our products declined by over 60 percent. This resulted in a larger than anticipated reduction in our selling prices as we passed our cost savings through to our customers. Consequently, the Company's selling prices for similar products when compared on a year over year basis were lower than expected.

Cost of sales was $19.0 million in fiscal 2008 or 61.6 percent of revenues compared to $29.4 million or 76.6 percent of revenues in fiscal 2007. There were several primary factors which contributed to the percentage decline. The Company's general pricing strategy has been to reduce its selling prices by approximately the same amount as the cost savings realized from lower DRAM prices. This has had the effect of increasing the realized gross margin percentage. Also, during fiscal 2008, there was a shift in sales to larger capacity memory modules, which typically command higher margins. As the price of the Company's higher capacity products came down as a result of lower DRAM costs, they became a more affordable option for customers with memory intensive applications. Finally, year over year cost of sales expense also included savings of approximately $626,000 as a result of a reduction in workforce and other manufacturing costs initiated in the fourth quarter of the fiscal year 2007.

Engineering expenses were $1.3 million in fiscal 2008 versus $1.2 million in fiscal 2007.

Selling, general and administrative expenses were $8.8 million in fiscal 2008 versus $9.6 million in fiscal 2007. The decline in expense was primarily the result of workforce and other cost reductions initiated at the end of the prior fiscal year. Also, included in the fiscal year 2008 expense is $297,000 of stock-based compensation expense, compared to $440,000 in fiscal 2007.

Other income, net for fiscal year 2008 totaled $868,000 versus $3.1 million in fiscal 2007. Other income in fiscal 2008 included $748,000 of net interest income and $120,000 of foreign currency transaction gains, primarily as a result of the EURO strengthening relative to the US dollar. Other income in fiscal 2007 included $2.3 million received from a DRAM manufacturer related to a settlement agreement. In fiscal 2007, the Company also received $712,000 of net interest income and realized approximately $97,000 of foreign currency transaction gains.

Income tax expense for fiscal 2008 was $1.0 million versus $450,000 in fiscal 2007.

## Liquidity and Capital Resources

The Company's cash and working capital position remains strong. Working capital at the end of fiscal 2009 amounted to $15.5 million, including cash and cash equivalents of $12.5 million, compared to working capital of $22.4 million, including cash and cash equivalents of $17.6 million, at the end of fiscal 2008. Current assets at the end of fiscal 2009 were 6.0 times current liabilities compared to 10.0 times at the end of fiscal 2008.

Accounts receivable at the end of fiscal 2009 were $3.4 million compared to fiscal 2008 year-end trade receivables of $4.0 million.

The Company used $3.6 million of cash flows from operating activities primarily as a result of net losses of $3.1 million. Other uses of operating cash flows included a deferred income taxes increase of $2.0 million, an accounts payable decrease of $594,000 and an inventories increase of $223,000. Cash used in operating activities was partially offset by a $940,000 decrease in accounts receivable, which was primarily the result of reduced revenues. Also, depreciation and amortization expense of $456,000, non-cash stock-based compensation expense of $533,000 and other non-cash stock option expense of $121,000 offset the cash used in operating activities. Other net changes in assets and liabilities increased cash flows from operating activities by $421,000.

Cash used in investing activities totaled approximately $1.5 million and consisted of the acquisition of a business, more fully described below, totaling approximately $912,000 and additions of property and equipment totaling approximately $617,000.

Capital expenditures were $617,000 in fiscal 2009 compared to $235,000 in fiscal 2008. Fiscal 2010 capital expenditures are expected to total approximately $650,000. At the end of fiscal 2009, contractual commitments for capital purchases were zero.

On December 4, 2002, the Company announced an open market repurchase plan providing for the repurchase of up to 500,000 shares of the Company's common stock. As of April 30, 2009, the total number of shares authorized for purchase under the program is 172,196 shares. In fiscal 2009 and 2008, the Company did not repurchase any shares of its common stock.

On June 21, 2004, the Company entered into a credit facility with a bank, which provided for up to a $5 million revolving credit line. The Company was required to pay a fee equal to one-eighth of one percent per annum on the unused commitment. There have been no borrowings against the credit line. On February 23, 2009, the Company canceled this agreement.



On March 31, 2009, the Company acquired certain assets of Micro Memory Bank, Inc. (MMB), a privately held corporation. MMB is a manufacturer of legacy to advanced solutions in laptop, desktop and server memory products. The acquisition expands the Company's memory product offerings and routes to market. The Company purchased the assets from MMB for total consideration of approximately $2,253,000, of which approximately $912,000 was paid in cash. The Company also assumed certain accounts payable totaling approximately $190,000 and certain accrued liabilities totaling approximately $122,000. Under the terms of the agreement with MMB, the remaining portion of the purchase price is contingently payable based upon the performance of the new Dataram business unit to be operated as a result of the acquisition (the Unit) and consists of a percentage, averaging 65%, payable quarterly, over the next four years of earnings before interest, taxes, depreciation and amortization of the Unit. At April 30, 2009 the estimated remaining purchase price to be paid under the agreement is $1,029,000. The net assets acquired by the Company were recorded at their respective fair values under the purchase method of accounting in accordance with the provisions of SFAS No. 141. The results of operations of MMB for the period from the acquisition date, March 31, 2009, through April 30, 2009 have been included in the consolidated results of operations of the Company.

Management believes that the Company's existing cash resources will be sufficient to meet short-term liquidity needs. Management further believes that its working capital is adequate to finance the Company's long-term operating needs and future capital requirements.

Contractual Obligations

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2009 are as follows:

| | Operating leases |
|---|---|
| Year ending April 30: | |
| 2010 | $ 533,000 |
| 2011 | 387,000 |
| 2012 | 34,000 |
| Thereafter | 0 |
| | $ 954,000 |

Purchases

At April 30, 2009, the Company had open purchase orders outstanding totaling $1.1 million primarily for inventory items to be delivered in the first quarter of fiscal 2010. These purchase orders are cancelable.

Recently Adopted Accounting Pronouncements

In February 2007, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). SFAS 159 gives the Company the irrevocable option to carry many financial assets and liabilities at fair values, with changes in fair value recognized in earnings. SFAS 159 was effective for the Company beginning May 1, 2008. The Company has reviewed the provisions of SFAS 159, and has determined that as of April 30, 2009 the provisions of SFAS 159 do not apply to any of the Company's assets or liabilities. In the event that the Company acquires any future assets or liabilities which would be subject to the provisions of SFAS 159, the Company will make an election relative to those assets or liabilities at the time of acquisition.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133" (SFAS 161), which requires additional disclosures about the objectives of the derivative instruments and hedging activities, the method of accounting for such instruments under SFAS Statement No. 133 and its related interpretations, and a tabular disclosure of the effects of such instruments and related hedged items on our consolidated financial position, financial performance, and cash flows. SFAS 161 was effective for us beginning February 1, 2009. The Company does not own any derivative instruments nor does it participate in hedging activity.

Recent Accounting Pronouncements Not Yet Adopted

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations" (SFAS 141R), which replaces SFAS No. 141. The statement retains the purchase method of accounting for acquisitions, but requires a number of changes, including changes in the way assets and liabilities are recognized in the purchase accounting. It also changes the recognition of assets acquired and liabilities assumed arising from contingencies, requires the capitalization of in-process research and development at fair value, and requires the expensing of acquisition-related costs as incurred. SFAS 141R is effective for us beginning May 1, 2009 and will apply prospectively to business combinations completed on or after that date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an amendment of ARB No. 51" (SFAS 160), which changes the accounting and reporting for minority interests. Minority interests will be recharacterized as noncontrolling interests and will be reported as a component of equity separate from the parent's equity, and purchases or sales of equity interests that do not result in a change in control will be accounted for as equity transactions. In addition, net income attributable to the noncontrolling interest will be included in consolidated net income on the face of the income statement and, upon a loss of control, the interest sold, as well as any interest retained, will be recorded at fair value with any gain or loss recognized in earnings. SFAS 160 is effective for us beginning May 1, 2009 and will apply prospectively, except for the presentation and disclosure requirements, which will apply retrospectively. The Company has no minority or noncontrolling interest as defined in SFAS 160.

In May 2009, the FASB issued SFAS 165, "Subsequent Events." (SFAS 165). SFAS 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS 165 is effective for periods ending after June 15, 2009. The adoption of SFAS 165 is not expected to have a material impact on our consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, "The FASB Accounting Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles-a replacement of FASB Statement No. 162" (SFAS 168). SFAS 168 defines the order in which accounting principles generally accepted in the United States of America should be followed. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009. The adoption of SFAS 168 is not expected to have a material impact on our consolidated financial statements.



Critical Accounting Policies

During December 2001, the Securities and Exchange Commission (SEC) published a Commission Statement in the form of Financial Reporting Release No. 60 which encouraged that all registrants discuss their most "critical accounting policies" in management's discussion and analysis of financial condition and results of operations. The SEC has defined critical accounting policies as those that are both important to the portrayal of a company's financial condition and results, and that require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. While the Company's significant accounting policies are summarized in Note 1 to the consolidated financial statements included in this Annual Report, management believes the following accounting policies to be critical:

Revenue Recognition - Revenue is recognized when title passes upon shipment of goods to customers. The Company's revenue earning activities involve delivering or producing goods. The following criteria are met before revenue is recognized: persuasive evidence of an arrangement exists, shipment has occurred, selling price is fixed or determinable and collection is reasonably assured. The Company does experience a minimal level of sales returns and allowances for which the Company accrues a reserve at the time of sale in accordance with SFAS No. 48, "Revenue Recognition When Right of Return Exists". Estimated warranty costs are accrued by management upon product shipment based on an estimate of future warranty claims.

Stock Option Expense - In December 2004, SFAS No. 123 (revised 2004), "Share-Based Payment"(SFAS 123R) was issued. SFAS 123R revises SFAS 123 and supersedes APB No. 25, "Accounting for Stock Issued to Employees" (APB 25). SFAS 123, as originally issued in 1995, established as preferable a fair value-based method of accounting for share-based payment transactions with employees. The Company adopted the guidance in SFAS 123R effective May 1, 2006. The accompanying consolidated statement of earnings for the fiscal year ended April 30, 2009 includes approximately $533,000 of compensation expense in the selling, general and administrative expense line item related to the fair value of options granted to employees and directors under the Company's stock-based employee compensation plans, which amount is being amortized over the service period in the financial statements, as required by SFAS 123R. These awards have been classified as equity instruments, and as such, a corresponding increase, net of the reversal of the previously recorded income tax benefit for options which expired during the reporting period has been reflected in additional paid-in capital in the accompanying balance sheet as of April 30, 2009. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions: Expected life is based on the Company's historical experience of option exercises relative to option contractual lives; expected volatility is based on the historical volatility of the Company's share price; expected dividend yield assumes the current dividend rate remains unchanged; risk-free interest rate approximates United States government debt rates at the time of option grants.

Research and Development Expense - All research and development costs are expensed as incurred, including Company-sponsored research and development and costs of patents and other intellectual property that have no alternative future use when acquired and in which we have an uncertainty in receiving future economic benefits.

Income Taxes - The Company utilizes the asset and liability method of accounting for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes"(SFAS No. 109). Under the asset and liability method of SFAS No. 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company considers certain tax planning strategies in its assessment as to the recoverability of its tax assets. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that the tax rate changes.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of

America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, including deferred tax asset valuation allowances and certain other reserves and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are reviewed periodically and the effects of revisions are reflected in the consolidated financial statements in the period they are determined to be necessary. Some of the more significant estimates made by management include the allowance for doubtful accounts and sales returns, the deferred tax asset valuation allowance and other operating allowances and accruals. Actual results could differ from those estimates.

Quantitative and Qualitative Disclosure about Market Risk

The Company does not invest in market risk sensitive instruments. The Company's investments consist of overnight deposits with banks, money market accounts and commercial paper, which matures within ninety days. The Company's rate of return on its investment portfolio changes with short-term interest rates, although such changes will not affect the value of its portfolio. The Company's objective in connection with its investment strategy is to maintain the security of its cash reserves without taking market risk with principal.

The Company purchases and sells primarily in U.S. dollars. The Company sells in foreign currency (primarily Euros) to a limited number of customers and as such incurs some foreign currency risk. At any given time, approximately 5 to 10 percent of the Company's accounts receivable are denominated in currencies other than U.S. dollars. At present, the Company does not purchase forward contracts as hedging instruments, but could do so as circumstances warrant.

Controls and Procedures

The Chief Executive Officer and Chief Financial Officer of the Company have evaluated the effectiveness of our disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective. There were no changes in our internal control over financial reporting during the fiscal year ended April 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



Report of Management on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. Internal control over financial reporting is a process to provide reasonable assurance regarding the reliability of our financial reporting for external purposes in accordance with accounting principles generally accepted in the United States of America. Internal control over financial reporting includes maintaining records that in reasonable detail accurately and fairly reflect our transactions; providing reasonable assurance that transactions are recorded as necessary for preparation of our financial statements; providing reasonable assurance that receipts and expenditures of Company assets are made in accordance with management authorization; and providing reasonable assurance that unauthorized acquisition, use or disposition of Company assets that could have a material effect on our financial statements would be prevented or detected on a timely basis. Because of its inherent limitations, internal control over financial reporting is not intended to provide absolute assurance that a misstatement of our financial statements would be prevented or detected.

Management has conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management has concluded that the Company's internal control over financial reporting was effective as of April 30, 2009. There were no changes in our internal control over financial reporting during the quarter ended April 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. This Annual Report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to temporary rules of the SEC that permit the Company to provide only management's report in the Annual Report.

Common Stock Information

The Common Stock of the Company is traded on the NASDAQ National Market with the symbol "DRAM". The following table sets forth, for the periods indicated, the high and low prices for the Common Stock.

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | High | Low | High | Low |
| First Quarter | $ 3.35 | $ 2.21 | $ 4.60 | $ 4.01 |
| Second Quarter | 2.50 | 1.13 | 4.08 | 3.05 |
| Third Quarter | 1.88 | 1.08 | 3.59 | 2.95 |
| Fourth Quarter | 1.40 | 1.11 | 3.55 | 2.82 |

At April 30, 2009, there were approximately 7,000 shareholders. Dividends paid in the fiscal year ended April 30, 2008 totaled $0.24 per common share and were paid quarterly at the rate of $0.06 per common share. In a press release dated June 4, 2008, the Company announced that the Board of Directors suspended future dividend payments.



DATARAM CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
April 30, 2009 and 2008
(In thousands, except share and per share amounts)

| | 2009 | 2008 |
|---|---|---|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | $12,525 | $17,642 |
| Accounts receivable, less allowance for doubtful accounts and sales returns of $290 in 2009 and $250 in 2008 | 3,381 | 4,047 |
| Inventories: | | |
| Raw materials | 1,345 | 1,379 |
| Work in process | 15 | 65 |
| Finished goods | 841 | 533 |
| | 2,201 | 1,977 |
| Deferred income taxes | 300 | 1,101 |
| Other current assets | 126 | 98 |
| Total current assets | 18,533 | 24,865 |
| Deferred income taxes | 3,282 | 480 |
| Property and equipment: | | |
| Machinery and equipment | 11,761 | 11,075 |
| Leasehold improvements | 2,225 | 2,103 |
| | 13,986 | 13,178 |
| Less accumulated depreciation and amortization | 12,886 | 12,492 |

| | | |
|---|---|---|
| Net property and equipment | 1,100 | 686 |
| Other assets | 136 | 79 |
| Intangible assets, less accumulated amortization of $55 | 1,504 | - |
| | $24,555 | $26,110 |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Accounts payable | $ 1,386 | $ 1,789 |
| Accrued liabilities | 1,689 | 702 |
| Total current liabilities | 3,075 | 2,491 |
| Accrued liabilities | 381 | - |
| Total liabilities | 3,456 | 2,491 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value $1.00 per share. Authorized 54,000,000 shares; issued and outstanding 8,869,184 in 2009 and 2008 | 8,869 | 8,869 |
| Additional paid-in capital | 7,023 | 6,408 |
| Retained earnings | 5,207 | 8,342 |
| Total stockholders' equity | 21,099 | 23,619 |
| | $24,555 | $26,110 |

See accompanying notes to consolidated financial statements.



DATARAM CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations
Years ended April 30, 2009, 2008 and 2007
(In thousands, except per share amounts)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Revenues | $ 25,897 | $ 30,893 | $ 38,404 |
| Costs and expenses: | | | |
| Cost of sales | 17,443 | 19,016 | 29,410 |
| Engineering | 1,219 | 1,267 | 1,243 |
| Research and development | 1,531 | - | - |
| Selling, general and administrative | 11,064 | 8,837 | 9,605 |
| | 31,257 | 29,120 | 40,258 |
| Earnings (loss) from operations | (5,360) | 1,773 | (1,854) |
| Other income (expense): | | | |
| Interest income | 300 | 754 | 717 |
| Interest expense | (6) | (6) | (5) |
| Currency gain (loss) | (68) | 120 | 97 |
| Other income (expense) | (3) | - | 2,265 |

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| | 223 | 868 | 3,074 |
| Earnings (loss) before income tax Expense (benefit) | (5,137) | 2,641 | 1,220 |
| Income tax expense (benefit) | (2,002) | 1,033 | 450 |
| Net earnings (loss) | $(3,135) | $ 1,608 | $ 770 |
| Net earnings (loss) per common share: | | | |
| Basic | $ (0.35) | $ 0.18 | $ 0.09 |
| Diluted | $ (0.35) | $ 0.18 | $ 0.09 |

See accompanying notes to consolidated financial statements.



DATARAM CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
Years ended April 30, 2009, 2008 and 2007
(In thousands)

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Net earnings (loss) | $ (3,135) | $ 1,608 | $ 770 |
| Adjustments to reconcile net earnings (loss)to net cash provided by (used in)operating activities: | | | |
| Depreciation and amortization | 456 | 312 | 383 |
| Bad debt expense (recovery) | 204 | (18) | 29 |
| Stock-based compensation expense | 533 | 297 | 440 |
| Other stock option expense | 121 | - | - |
| Loss on sale of property and equipment | 2 | - | - |
| Deferred income tax expense (benefit) | (2,040) | 691 | 269 |
| Excess tax benefits from sale of common shares under stock option plan | - | (81) | (113) |
| Changes in assets and liabilities (net of effect of acquisition of business): | | | |
| Decrease in accounts receivable | 940 | 688 | 146 |
| Decrease (increase) in inventories | (223) | 144 | 67 |
| Decrease (increase) in other current assets | (28) | 133 | (150) |
| Decrease (increase) in other assets | (41) | 26 | - |
| Increase (decrease) in accounts payable | (594) | 192 | (460) |
| Increase (decrease) in accrued liabilities | 217 | (274) | 324 |
| Net cash provided by (used in) operating activities | (3,588) | 3,718 | 1,705 |
| Cash flows from investing activities: | | | |
| Acquisition of business | (912) | - | - |
| Collection of note receivable | - | 1,537 | - |
| Additions to property and equipment | (617) | (235) | (320) |
| Proceeds from sale of property and equipment | - | 21 | - |
| Net cash provided by (used in) | | | |

| | | | |
|---|---|---|---|
| investing activities | (1,529) | 1,323 | (320) |
| Cash flows from financing activities: | | | |
| Proceeds from sale of common shares under stock option plan (including tax benefits) | - | 496 | 651 |
| Excess tax benefits from sale of common shares under stock option plan | - | 81 | 113 |
| Dividends paid | - | (2,114) | (2,055) |
| Net cash used in financing activities | - | (1,537) | (1,291) |
| Net increase (decrease) in cash and cash equivalents | (5,117) | 3,504 | 94 |
| Cash and cash equivalents at beginning of year | 17,642 | 14,138 | 14,044 |
| Cash and cash equivalents at end of year | $ 12,525 | $ 17,642 | $ 14,138 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 6 | $ 6 | $ 5 |
| Income taxes | $ 20 | $ 134 | $ 205 |

See accompanying notes to consolidated financial statements.



DATARAM CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Years ended April 30, 2009, 2008 and 2007
(In thousands, except share amounts)

| | Common stock | Additional paid-in capital | Retained earnings | Total stock-holders' equity |
|---|---|---|---|---|
| Balance at April 30, 2006 | $ 8,487 | $ 4,906 | $10,133 | $23,526 |
| Issuance of 200,359 shares under stock option plans, including income tax benefit of $113 | 201 | 450 | - | 651 |
| Net earnings | - | - | 770 | 770 |
| Stock-based compensation expense | - | 440 | - | 440 |
| Dividends paid (1) | - | - | (2,055) | (2,055) |
| Balance at April 30, 2007 | $ 8,688 | $ 5,796 | $ 8,848 | $23,332 |
| Issuance of 181,429 shares under stock option plans, including income tax benefit of $81 | 181 | 315 | - | 496 |
| Net earnings | - | - | 1,608 | 1,608 |
| Stock-based compensation expense | - | 297 | - | 297 |
| Dividends paid (2) | - | - | (2,114) | (2,114) |

| | | | | |
|---|---|---|---|---|
| Balance at April 30, 2008 | $ 8,869 | $ 6,408 | $ 8,342 | $23,619 |
| Net loss | - | - | (3,135) | (3,135) |
| Stock-based compensation expense Net of tax effect of expired options of $39 | - | 494 | - | 494 |
| Other stock option expense | - | 121 | - | 121 |
| Balance at April 30, 2009 | $ 8,869 | $ 7,023 | $ 5,207 | $21,099 |

(1) Dividends paid in the fiscal year ended April 30, 2007 totaled $0.24 per common share and were paid quarterly at the rate of $0.06 per common share.
(2) Dividends paid in the fiscal year ended April 30, 2008 totaled $0.24 per common share and were paid quarterly at the rate of $0.06 per common share.

See accompanying notes to consolidated financial statements.



Notes to Consolidated Financial Statements
(Dollars in thousands, except per share amounts)

(1) Significant Accounting Policies

Description of Business

Dataram Corporation is a worldwide provider of server and workstation memory. The Company offers a specialized line of gigabyte-class memory for entry to enterprise-level servers and workstations as well as customized memory solutions for original equipment manufacturers.

Principles of Consolidation

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany transactions and balances have been eliminated.

Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash, money market accounts and commercial paper purchased with maturities of three months or less when acquired.

Accounts Receivable

Accounts receivable consists of the following categories:

| | April 30, 2009 | April 30, 2008 |
|---|---|---|
| Trade receivables | $ 3,599 | $ 4,173 |
| VAT receivable | 72 | 124 |
| Allowance for doubtful accounts and sales returns | (290) | (250) |
| | $ 3,381 | $ 4,047 |

Inventories

Inventories, consisting of materials, labor and manufacturing overhead, are stated at the lower of cost or market, with cost determined by the first-in, first-out method.

Note Receivable

On December 29, 2005, the Company closed on an agreement to sell its undeveloped land. The purchase price was $3,075 of which half, or $1,537, was paid in the form of a note that accrued interest, payable monthly, at 5% per annum for a period of one year and 7.5% per annum thereafter. In fiscal 2008, the note was paid in full.

Property and Equipment

Property and equipment is recorded at cost. Depreciation is computed on the straight-line basis. Depreciation and amortization rates are based on the estimated useful lives, which range from three to five years for machinery and equipment and five to six years for leasehold improvements. When property or equipment is retired or otherwise disposed of, related costs and accumulated depreciation and amortization are removed from the accounts.

Repair and maintenance costs are charged to operations as incurred.

Long-Lived Assets

Long-lived assets, such as property, plant and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to the estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the estimated fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less cost to sell, and no longer depreciated. The Company considers various valuation factors, principally undiscounted cash flows, to assess the fair values of long-lived assets.

Intangible Assets

Intangible assets with determinable lives are amortized using the straight-line method over their estimated period of benefit, ranging from two to five years. We evaluate the recoverability of intangible assets periodically and take into account events or circumstances that warrant revised estimates of useful lives or that indicate that impairment exists. All of our intangible assets are subject to amortization. No material impairments of intangible assets have been identified during any of the periods presented.

Revenue Recognition

Revenue is recognized when title passes upon shipment of goods to customers. The Company's revenue earning activities involve delivering or producing goods. The following criteria are met before revenue is recognized: persuasive evidence of an arrangement exists, shipment has occurred, selling price is fixed or determinable and collection is reasonably assured. The Company does experience a minimal level of sales returns and allowances for which the Company accrues a reserve at the time of sale in accordance with SFAS No. 48, "Revenue Recognition When Right of Return Exists". Estimated warranty costs are accrued by management upon product shipment based on an estimate of future warranty claims.

Engineering and Research and Development

The Company expenses engineering costs as incurred. Engineering effort is directed to the development of new or improved computer memory products as well as ongoing support for existing products. Research and development expenses for the fiscal year ended April 30, 2009 include payroll, employee benefits, stock-based compensation, other headcount-related expenses, licensing fees and third-party development and programming costs associated with development of the Company's storage product line. These storage products are not yet released for sale.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes in accordance with the provisions of SFAS No. 109, "Accounting for Income Taxes"(SFAS 109). Under the asset and liability method of SFAS 109, deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. A valuation allowance is provided when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company considers certain tax planning strategies in its assessment as to the recoverability of its tax assets. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. Under SFAS No. 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in earnings in the period that the tax rate changes.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and accounts receivable. The Company maintains its cash and cash equivalents in financial institutions and brokerage accounts. To the extent that such deposits exceed the maximum insurance levels, they are uninsured. The Company performs ongoing evaluations of its customers' financial condition, as well as general economic conditions and, generally, requires no collateral from its customers. At April 30, 2009, amounts due from one customer totaled approximately 21% of accounts receivable. At April 30, 2008, amounts due from two customers totaled approximately 26% of accounts receivable.



In fiscal 2009, the Company had sales to one customer that accounted for approximately 17% of revenue. In fiscal 2008, the Company had sales to one customer that accounted for approximately 14% of revenue. In fiscal 2007, the Company had no sales to any one customer that accounted for 10% or more of revenues.

Net Earnings Per Share

Net Earnings Per Share is presented in accordance with SFAS No. 128, "Earnings Per Share". Basic net earnings per share is calculated by dividing net earnings by the weighted average number of common shares outstanding during the period. Diluted net earnings per share was calculated in a manner consistent with basic net earnings per share except that the weighted average number of common shares outstanding also includes the dilutive effect of stock options outstanding (using the treasury stock method).

The following presents a reconciliation of the numerator and denominator used in computing basic and diluted net earnings per share.

| | Year ended April 30, 2009 | | |
|---|---|---|---|
| | Loss (numerator) | Shares (denominator) | Per share amount |
| Basic net loss per share - -net loss and weighted average common shares outstanding | $(3,135) | 8,869,184 | $ (.35) |
| Effect of dilutive securities - -stock options | - | - | - |
| Diluted net loss per share - -net loss weighted average common shares outstanding and effect of stock options | $(3,135) | 8,869,184 | $ (.35) |

| | Year ended April 30, 2008 Earnings (numerator) | Shares (denominator) | Per share amount |
|---|---|---|---|
| Basic net earnings per share - -net earnings and weighted average common shares outstanding | $ 1,608 | 8,825,000 | $ .18 |
| Effect of dilutive securities - -stock options | - | 29,000 | - |
| Diluted net earnings per share - -net earnings, weighted average common shares outstanding and effect of stock options | $ 1,608 | 8,854,000 | $ .18 |

| | Year ended April 30, 2007 Earnings (numerator) | Shares (denominator) | Per share amount |
|---|---|---|---|
| Basic net earnings per share - -net earnings and weighted average common shares outstanding | $ 770 | 8,572,000 | $ .09 |
| Effect of dilutive securities - -stock options | - | 232,000 | - |
| Diluted net earnings per share - -net earnings, weighted average common shares outstanding and effect of stock options | $ 770 | 8,804,000 | $ .09 |

Diluted net loss per common share does not include the effect of options to purchase 1,307,675 shares of common stock for the year ended April 30, 2009 because they are anti-dilutive.

Diluted net earnings per common share does not include the effect of options to purchase 756,135 shares of common stock for the year ended April 30, 2008 because they are anti-dilutive.

Diluted net earnings per common share does not include the effect of options to purchase 555,938 shares of common stock for the year ended April 30, 2007 because they are anti-dilutive.



Product Warranty

The majority of the Company's products are intended for single use; therefore, the Company requires limited product warranty accruals. The Company accrues estimated product warranty cost at the time of sale and any additional amounts are recorded when such costs are probable and can be reasonably estimated.

| | Balance Beginning of Year | Charges to Costs and Expenses | Other | Deductions | Balance End of Year |
|---|---|---|---|---|---|
| Year Ended April 30, 2009 | $ 54 | 5 | 25(1) | (5) | $ 79 |

| | | | | | |
|---|---|---|---|---|---|
| Year Ended April 30, 2008 | $ 54 | 20 | - | (20) | $ 54 |
| Year Ended April 30, 2007 | $ 54 | 4 | - | (4) | $ 54 |

(1) Includes a warranty obligation of an acquired business (See Note 2).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value of Financial Instruments

The fair value of financial instruments is determined by reference to market data and other valuation techniques as appropriate. The Company believes that there is no material difference between the fair value and the reported amounts of financial instruments in the consolidated balance sheets.

Stock-Based Compensation

At April 30, 2009, the Company has stock-based employee and director compensation plans, which are described more fully in Note 6. New shares of the Company's common stock are issued upon exercise of stock options.

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R). SFAS 123R addresses the accounting for transactions in which an enterprise receives employee services in exchange for (a) equity instruments of the enterprise or (b) liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS 123R requires that such transactions be accounted for using a fair value-based method. SFAS 123R requires companies to recognize an expense for compensation cost related to share-based payment arrangements, including stock options and employee stock purchase plans. The Company implemented SFAS 123R effective May 1, 2006.

As a result of adopting SFAS 123R, our consolidated statement of operations for fiscal year ended April 30, 2009 includes $533 of compensation expense. Compensation expense is recognized in the selling, general and administrative expenses line item of the accompanying consolidated statements of operations on a ratable basis over the vesting periods. These stock option grants have been classified as equity instruments, and as such, a corresponding increase, net of the reversal of the previously recorded income tax benefit for options which expired during the reporting period has been reflected in additional paid-in capital in the accompanying balance sheet as of April 30, 2009. In fiscal 2008 and fiscal 2007, stock-based compensation expense totaled $297 and $440, respectively. A corresponding increase of $297 is reflected in additional paid-in capital in fiscal 2008's balance sheet. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model.

SFAS 123R requires excess tax benefits to be reported as a financing cash inflow. The Company had $81 of excess tax benefits in fiscal 2008. The Company had $113 of excess tax benefits in fiscal 2007.

A summary of option activity under the plans for the fiscal year ended April 30, 2009 is as follows:

| | Weighted average | Weighted average remaining | Aggregate intrinsic |
|---|---|---|---|

| | Shares | exercise price | contractual life | value(1) |
|---|---|---|---|---|
| Balance April 30, 2008 | 899,000 | $5.69 | 3.64 | $ 26 |
| Granted | 468,000 | $2.36 | - | - |
| Exercised | - | - | - | - |
| Expired | (109,325) | $4.74 | - | - |
| Balance April 30, 2009 | 1,257,675 | $4.53 | 4.37 | $ 4 |
| Exercisable April 30, 2009 | 796,175 | $5.79 | 2.40 | $ - |

(1) These amounts represent the difference between the exercise price and $1.32, the closing price of Dataram common stock on April 30, 2009 as reported on the NASDAQ Stock Market, for all in-the-money options outstanding. For exercised options, intrinsic value represents the difference between the exercise price and the closing price of Dataram common stock on the date of exercise.

Total cash received from the exercise of options in fiscal 2009 was nil. During fiscal 2009, 116,500 options completed vesting. As of April 30, 2009, there was $538 of total unrecognized compensation expense related to stock options. This expense is expected to be recognized over a weighted average period of approximately one year. At April 30, 2009, an aggregate of 793,227 shares were authorized for future grant under the Company's stock option plans.

The fair value of each stock option granted during the year is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Expected life (years) | 5.0 or 10.0 | 4.0 | 4.0 |
| Expected volatility | 110% | 110% | 67% |
| Expected dividend yield | - | 7.2% | 5.1% |
| Expected forfeiture rate | 5.0% | 5.0% | - |
| Risk-free interest rate | 4.0% | 5.0% | 5.0% |
| Weighted average fair value of options granted during the year | $ 2.36 | $ 1.81 | $ 2.00 |

Expected life is based on the Company's historical experience of option exercises relative to option contractual lives. Expected volatility is based on the historical volatility of the Company's share price. Expected dividend yield assumes the current dividend rate remains unchanged. Expected forfeiture rate is based on the Company's historical experience. Risk free interest rate approximates United States government debt rates at the time of option grants.



(2) Acquisition

On March 31, 2009, the Company acquired certain assets of Micro Memory Bank, Inc. (MMB), a privately held corporation. MMB is a manufacturer of legacy to advanced solutions in laptop, desktop and server memory products. The acquisition expands the Company's memory product offerings and routes to market. The Company purchased the assets from MMB for total consideration of approximately $2,253 of which approximately $912 was paid in cash. The Company also assumed certain accounts payable totaling approximately $190 and certain accrued liabilities totaling approximately $122. Under the terms of the agreement with MMB, the remaining portion of the purchase price is contingently payable based upon the performance of the new Dataram business unit to be operated as a result of the acquisition (the Unit) and consists of a percentage, averaging 65%, payable quarterly, over the next four years of earnings before interest, taxes, depreciation and amortization of the Unit. At April 30, 2009, the estimated remaining purchase price to be paid under the agreement is $1,029 and is recorded as an accrued liability (of which, $381 has been classified as long-term) in the Company's consolidated balance sheet. The net assets acquired by the Company were recorded at their respective fair values under the purchase method of accounting in accordance with the provisions of SFAS No. 141. The results of operations of MMB for the period from the acquisition date, March 31, 2009, through April 30, 2009 have been included in the consolidated results of operations of the Company.

The total consideration of the acquisition has been allocated to the fair value of the assets of MMB as follows:

| | |
|---|---|
| Accounts receivable | $ 478 |
| Machinery and equipment | 200 |
| Deposits | 16 |
| Trade names | 733 |
| Customer relationships | 758 |
| Non-compete agreement | 68 |
| | -------- |
| Gross assets acquired | 2,253 |
| Liabilities assumed | 312 |
| Net assets acquired | $ 1,941 |
| | ======== |

The Company estimates that it has no significant residual value related to its intangible assets. Acquired intangibles generally are amortized on a straight-line basis over weighted average lives. Intangible assets amortization expense was $55 for fiscal year 2009 and nil for fiscal years 2008 and 2007. The components of finite-lived intangible assets acquired during fiscal year 2009 are as follows:

| | Gross Carrying Amount | Weighted Average Life | Accumulated Amortization | Net Carrying Amount |
|---|---|---|---|---|
| Trade names | $ 733 | 5 Years | $ 41 | $ 692 |
| Customer relationships | 758 | 2 Years | 12 | 746 |
| Non-compete agreement | 68 | 4 Years | 2 | 66 |
| | ------- | | ---- | ------- |
| | $ 1,559 | | $ 55 | $ 1,504 |
| | ======= | | ==== | ======= |

The following table outlines the estimated future amortization expense related to intangible assets:

| | |
|---|---|
| Year ending April 30: | |
| 2010 | $ 637 |
| 2011 | 407 |
| 2012 | 164 |
| 2013 | 162 |
| 2014 | 134 |
| | $ 1,504 |
| | ======= |

(3) Long-Term Debt

On June 21, 2004, the Company entered into a credit facility with a bank, which provided for up to a $5 million revolving credit line. The Company was required to pay a fee equal to one-eighth of one percent per annum on the unused commitment. There have been no borrowings against the credit line. On February 23, 2009, the Company canceled this agreement.

(4) Related Party Transactions

During fiscal 2009, the Company purchased inventory for resale totaling approximately $727 from Sheerr Memory, LLC (Sheerr Memory). Sheerr Memory is wholly owned by Mr. David Sheerr, who is employed by the Company as the general manager of the acquired MMB business unit described in Note 2. When the Company acquired certain assets of MMB, it did not acquire any of its inventory. However, the Company informally agreed to purchase such inventory on an as needed basis, provided that the offering price was a fair market value price. The inventory acquired was purchased subsequent to the acquisition of MMB at varying times and consisted primarily of raw materials and finished goods used to produce products sold by the MMB business unit. Approximately $167 of these purchases were paid for by the Company in fiscal 2009 and the remaining $560 are classified as accounts payable in the Company's consolidated balance sheet as of April 30, 2009. Sheerr Memory offers the Company trade terms of Net 30 days and all invoices are settled in the normal course of business. No interest is paid. The Company has made further purchases from Sheerr Memory subsequent to April 30, 2009 and management anticipates that the Company will continue to do so, although the Company has no obligation to do so.



(5) Income Taxes

Income tax expense (benefit) for the years ended April 30 consists of the following:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Federal | $ - | $ 75 | $ 113 |
| State | - | 267 | 68 |
| | | 342 | 181 |
| Deferred: | | | |
| Federal | (1,595) | 678 | 274 |
| State | (407) | 13 | (5) |
| | (2,002) | 691 | 269 |
| Total income tax expense (benefit) | $ (2,002) | $ 1,033 | $ 450 |

The actual income tax expense (benefit) differs from "expected" tax expense (benefit) (computed by applying the U. S. corporate tax rate of 35% to earnings before income taxes) as follows:

| | 2009 | 2008 | 2007 |
|---|---|---|---|
| Computed "expected" tax expense (benefit) | $(1,798) | $ 924 | $ 427 |
| State income taxes(net of Federal income tax benefit) | (269) | 173 | 41 |
| Other | 65 | (64) | (18) |
| | $(2,002) | $ 1,033 | $ 450 |

The tax effect of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are presented below:

| | 2009 | 2008 |
|---|---|---|
| Deferred tax assets: | | |
| Compensated absences and severance, principally due to accruals for financial reporting purposes | $ 139 | $ 75 |
| Stock-based compensation expense | 493 | 289 |
| Accounts receivable, principally due to allowance for doubtful accounts and sales returns | 113 | 98 |
| Property and equipment, principally due to differences in depreciation | (40) | 63 |
| Intangible assets | 63 | - |
| Inventories | 94 | 115 |
| Foreign tax credit | 53 | 53 |
| Domestic net operating losses | 2,142 | 506 |
| Alternative minimum tax | 438 | 382 |
| Other | 87 | - |

| | | |
|---|---|---|
| Gross deferred tax assets | 3,582 | 1,581 |
| Deferred tax liabilities | - | - |
| Net deferred tax assets | $ 3,582 | $ 1,581 |

The Company has Federal and State net operating loss carryforwards of approximately $5,578 and $3,981, respectively. These can be used to offset future taxable income and expire between 2023 and 2029 for Federal tax purposes and 2016 and 2029 for State tax purposes. The tax benefit of net operating loss carryforwards utilized in each of the three years ended April 30, 2009 is as follows:

| | Federal | State | Total |
|---|---|---|---|
| 2009 | $ - | $ - | $ - |
| 2008 | $2,208 | $ - | $2,208 |
| 2007 | $1,056 | $ - | $1,056 |



(6) Stock Option Plans

The Company has a 1992 incentive and non-statutory stock option plan for the purpose of permitting certain key employees to acquire equity in the Company and to promote the growth and profitability of the Company by attracting and retaining key employees. In general, the plan allowed granting of up to 2,850,000 shares, adjusted for stock splits, of the Company's common stock at an option price to be no less than the fair market value of the stock on the date such options are granted. Under option agreements granted under the plan, the holder of the option may purchase 20% of the common stock with respect to which the option has been granted on or after the first anniversary of the date of the grant and an additional 20% of such shares on or after each of the four succeeding anniversary dates. At April 30, 2009, 54,050 of the outstanding options are exercisable. No further options may be granted under this plan.

The Company also has a 2001 incentive and non-statutory stock option plan for the purpose of permitting certain key employees to acquire equity in the Company and to promote the growth and profitability of the Company by attracting and retaining key employees. In general, the plan allows granting of up to 1,800,000 shares of the Company's common stock at an option price to be no less than the fair market value of the Company's common stock on the date such options are granted. Currently, options granted under the plan vest ratably on the annual anniversary date of the grants. Vesting periods for options currently granted under the plan range from one to five years. At April 30, 2009, 506,125 of the outstanding options are exercisable.

The status of the plans for the three years ended April 30, 2009, is as follows:

| | Options Outstanding | | |
|---|---|---|---|
| | Shares | Exercise price per share | Weighted average exercise price |
| Balance April 30, 2006 | 1,127,375 | $ 1.708-24.250 | $ 4.767 |
| Granted | 103,300 | 4.700 | 4.700 |
| Exercised | (200,359) | 2.313-4.090 | 2.684 |
| Expired | (18,250) | 2.313-10.000 | 6.026 |
| Balance April 30, 2007 | 1,012,066 | 2.813-24.250 | 5.150 |
| Granted | 95,000 | 3.330 | 3.330 |
| Exercised | (292,464) | 2.813 | 2.813 |
| Expired | (151,602) | 2.813-24.250 | 5.553 |
| Balance April 30, 2008 | 663,000 | 2.813-24.250 | 5.828 |

| | | | |
|---|---|---|---|
| Granted | 412,000 | 1.280-3.200 | 2.405 |
| Exercised | - | - | - |
| Expired | (109,325) | 1.990-7.9800 | 4.738 |
| Balance April 30, 2009 | 965,675 | $ 1.280-24.250 | $ 4.491 |

The Company periodically grants nonqualified stock options to non-employee directors of the Company. These options are granted for the purpose of retaining the services of directors who are not employees of the Company and to provide additional incentive for such directors to work to further the best interests of the Company and its shareholders. The options granted to these non-employee directors are exercisable at a price representing the fair value at the date of grant, and expire either five or ten years after date of grant. Of each option, 100% are exercisable one year after the date of grant. At April 30, 2009, 236,000 of the outstanding options are exercisable.



The status of the non-employee director options for the three years ended April 30, 2009, is as follows:

| | Options Outstanding | | |
|---|---|---|---|
| | Shares | Exercise price per share | Weighted average exercise price |
| Balance April 30, 2006 | 172,000 | $ 2.990-7.980 | $ 6.095 |
| Granted | 40,000 | 4.700 | 4.700 |
| Exercised | - | - | - |
| Expired | (16,000) | 6.750-7.980 | 7.365 |
| Balance April 30, 2007 | 196,000 | 2.990-7.980 | 5.965 |
| Granted | 40,000 | 3.330 | 3.330 |
| Exercised | - | - | - |
| Expired | - | - | - |
| Balance April 30, 2008 | 236,000 | 2.990-7.980 | 5.304 |
| Granted | 56,000 | 1.990 | 1.990 |
| Exercised | - | - | - |
| Expired | - | - | - |
| Balance April 30, 2009 | 292,000 | $ 1.990-7.980 | $ 4.668 |

Other Stock Option Expense

During fiscal 2009's first quarter, the Company granted options to purchase 50,000 shares of the Company's common stock to a privately held company in exchange for certain patents and other intellectual property. The options granted are exercisable at a price representing the fair value at the date of grant, are 100% exercisable on the date of grant and expire ten years after date of grant. The calculated fair value of these options is approximately $121 and was determined using the Black-Scholes option pricing model based upon the market price of the underlying common stock as of the date of grant, reduced by the present value of estimated future dividends, using an expected quarterly dividend rate of zero, an expected forfeiture rate of zero, a calculated volatility factor of 110% and a risk-free interest rate of 4.0%. Such calculated fair value has been charged in its entirety to the research and development expense line item in the accompanying consolidated statement of operations for this grant as of April 30, 2009. These stock option grants have been classified as equity instruments, and as such, a corresponding increase of $121 has been reflected in additional paid-in capital in the accompanying consolidated balance sheet as of April 30, 2009.

(7) Accrued Liabilities

Accrued liabilities consist of the following at April 30:

| | 2009 | 2008 |
|---|---|---|
| Contingently payable acquisition purchase price (See Note 2) | $ 648 | $ - |
| Payroll, including vacation | 490 | 317 |
| Severance costs | 174 | - |
| Commissions | 42 | 133 |
| Other | 335 | 252 |
| | $ 1,689 | $ 702 |



(8) Commitments

Leases

The Company and its subsidiaries occupy various facilities and operate various equipment under operating lease arrangements. Rent charged to operations pursuant to such operating leases amounted to approximately $561 in 2009, $655 in 2008 and $725 in 2007.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2009 are as follows:

| | Operating leases |
|---|---|
| Year ending April 30: | |
| 2010 | $ 533 |
| 2011 | 387 |
| 2012 | 34 |
| Thereafter | - |
| | $ 954 |

Purchases

At April 30, 2009, the Company had open purchase orders outstanding totaling $1.1 million, primarily for inventory items to be delivered in the first quarter of fiscal 2010. These purchase orders are cancelable.

License Agreements

The Company has entered into certain licensing agreements with varying terms and conditions. The Company is obligated to pay royalties on certain of these agreements. Royalties charged to operations pursuant to such agreements amounted to approximately $160 in 2009, $171 in 2008 and $119 in 2007.

Legal Proceedings

The Company is not involved in any claim or legal action that, in the opinion of management, would have a material effect on the Company's consolidated financial position, results of operations or liquidity.

(9) Employee Benefit Plan

The Company has a defined contribution plan (the Plan) which is available to all qualified employees. Employees may elect to contribute a portion of their compensation to the Plan, subject to certain limitations. The Company contributes a percentage of the employee's contribution, subject to a maximum of 4.5 percent effective January 1, 2008. In prior years the Company contributed up to 6 percent of the employee's eligible compensation, based on the employee's years of service. The Company's matching contributions aggregated approximately $ 249, $239 and $236 in 2009, 2008 and 2007, respectively.



(10) Revenues by Geographic Location

The Company operates in one business segment and develops, manufactures and markets a variety of memory systems for use with servers and workstations which are manufactured by various companies. Revenues, total assets and long lived assets for 2009, 2008 and 2007 by geographic region is as follows:

| | United States | Europe | Other* | Consolidated |
|---|---|---|---|---|
| April 30, 2009 | | | | |
| Revenues | $ 19,088 | $ 4,793 | $ 2,016 | $ 25,897 |
| Total assets | $ 24,416 | $ 106 | $ 33 | $ 24,555 |
| Long lived assets | $ 2,604 | $ 0 | $ 0 | $ 2,604 |
| April 30, 2008 | | | | |
| Revenues | $ 22,270 | $ 5,875 | $ 2,748 | $ 30,893 |
| Total assets | $ 26,030 | $ 78 | $ 2 | $ 26,110 |
| Long lived assets | $ 686 | $ 0 | $ 0 | $ 686 |
| April 30, 2007 | | | | |
| Revenues | $ 27,583 | $ 6,484 | $ 4,337 | $ 38,404 |
| Total assets | $ 25,428 | $ 464 | $ 13 | $ 25,905 |
| Long lived assets | $ 784 | $ 0 | $ 0 | $ 784 |

*Principally Asia Pacific Region

(11) Quarterly Financial Data (Unaudited)

| | Quarter Ended | | | |
|---|---|---|---|---|
| Fiscal 2009 | July 31 | October 31 | January 31 | April 30 |
| Revenues | $ 7,563 | $ 7,059 | $ 5,635 | $ 5,639 |
| Gross profit | 2,628 | 2,399 | 1,739 | 1,688 |
| Net loss | (606) | (393) | (1,024) | (1,112) |
| Net loss per diluted common share | (.07) | (.04) | (.12) | (.13) |

| Quarter Ended Fiscal 2008 | July 31 | October 31 | January 31 | April 30 |
|---|---|---|---|---|
| Revenues | $ 8,617 | $ 8,556 | $ 6,675 | $ 7,045 |
| Gross profit | 3,037 | 3,242 | 2,644 | 2,954 |
| Net earnings | 405 | 569 | 233 | 401 |
| Net earnings per diluted common and common equivalent share | .05 | .06 | .03 | .05 |

Earnings (loss) per share is calculated independently for each quarter and, therefore, may not equal the total for the year.



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders

Dataram Corporation:

We have audited the accompanying consolidated balance sheets of Dataram Corporation and Subsidiaries as of April 30, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the years in the three-year period ended April 30, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Dataram Corporation and Subsidiaries as of April 30, 2009 and 2008, and their results of operations and cash flows for each of the years in the three-year period ended April 30, 2009 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in fiscal 2007.

J.H. Cohn LLP
Lawrenceville, New Jersey
July 24, 2009

Selected Financial Data

(Not covered by Independent Registered Public Accounting Firm's Reports)
(In thousands, except per share amounts)

| Years Ended April 30, | 2009 | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Revenues | $ 25,897 | $ 30,893 | $ 38,404 | $ 41,795 | $ 65,684 |
| Net earnings (loss) | (3,135) | 1,608 | 770 | 2,772 | 6,715 |
| Basic earnings (loss) per share | (.35) | .18 | .09 | .33 | .78 |
| Diluted earnings (loss) per share | (.35) | .18 | .09 | .31 | .74 |
| Current assets | 18,533 | 24,865 | 23,893 | 24,108 | 23,435 |
| Total assets | 24,555 | 26,110 | 25,905 | 26,236 | 26,147 |
| Current liabilities | 3,075 | 2,491 | 2,573 | 2,710 | 3,966 |
| Total stockholders' equity | 21,099 | 23,619 | 23,332 | 23,526 | 22,181 |
| Cash dividends paid | - | 2,114 | 2,055 | 1,773 | - |



DIRECTORS AND CORPORATE OFFICERS

Directors

John H. Freeman
President and Chief Executive Officer
of Dataram Corporation

Thomas A. Majewski*
Principal, Walden Inc.

Roger C. Cady*
Principal, Arcadia Associates

Rose Ann Giordano*
President, Thomis Partners

*Member of audit committee

Corporate Officers

John H. Freeman
President and Chief Executive Officer

Mark E. Maddocks
Vice President, Finance and
Chief Financial Officer

Jeffrey H. Duncan
Vice President of Manufacturing
and Engineering

Anthony M. Lougee
Controller

Thomas J. Bitar
Secretary
Member, Dillon, Bitar & Luther, L.L.C.

Corporate Headquarters
Dataram Corporation
186 Princeton Road (Route 571)
West Windsor, NJ  08550
609-799-0071

Auditors
J.H. COHN LLP
Lawrenceville, NJ

General Counsel
Dillon, Bitar & Luther, L.L.C.
Morristown, NJ

Transfer Agent and Registrar

American Stock Transfer and Trust Company
10150 Mallard Creek Drive
Suite 307
Charlotte, NC  28262

Stock Listing
Dataram's common stock is listed on
the NASDAQ with the trading symbol DRAM.

Annual Meeting

The annual meeting of shareholders
will be held on Thursday, September 24,
2009, at 2:00 p.m. at Dataram's
corporate headquarters at:
186 Princeton Road (Route 571)
West Windsor, NJ 08550

Form 10-K
A copy of the Company's Annual Report
on Form 10-K filed with the Securities
& Exchange Commission is available
without charge to shareholders.

Address requests to:
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