

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended 7/31/06 or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from to

Commission file number 1-8266

DATARAM CORPORATION

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(Exact name of registrant as specified in its charter)

New Jersey 22-1831409

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(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

P.O. Box 7528, Princeton, NJ 08543

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(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (609) 799-0071

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(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definitions of "accelerated filer and large accelerated filer" in Rule 12b of the Exchange Act. (Check One):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date. Common Stock (\$1.00 par value): As of September 8, 2006, there were 8,575,596 shares outstanding.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

Dataram Corporation and Subsidiaries  
Consolidated Balance Sheets  
July 31, 2006 and April 30, 2006  
(Unaudited)

July 31, 2006    April 30, 2006

Assets

Current Assets:

Cash and cash equivalents	\$ 12,879,781	\$ 14,044,398
Trade receivables, less allowance for doubtful accounts and sales returns of \$300,000	4,669,824	4,892,530
Inventories	3,536,780	2,189,009
Deferred income taxes	1,440,865	1,364,865
Note receivable	1,537,500	1,537,500
Other current assets	370,758	80,063

Total current assets	<u>24,435,508</u>	<u>24,108,365</u>
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Deferred income taxes	1,126,000	1,176,000
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Property and equipment, at cost:

Machinery and equipment	10,712,429	10,640,675
Leasehold improvements	2,081,807	2,028,375

	<u>12,794,236</u>	<u>12,669,050</u>
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Less: accumulated depreciation and amortization	11,933,648	11,822,648
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Net property and equipment	<u>860,588</u>	<u>846,402</u>
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Other assets	104,988	104,988
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	<u>\$ 26,527,084</u>	<u>\$ 26,235,755</u>
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Liabilities and Stockholders' Equity

Current liabilities:

Accounts payable	\$ 2,813,774	\$ 2,056,948
Accrued liabilities	618,748	652,735

Total current liabilities	<u>3,432,522</u>	<u>2,709,683</u>
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Stockholders' Equity:

Common stock, par value \$1.00 per share.

Authorized 54,000,000 shares; issued and outstanding 8,493,396 at July 31, 2006 and 8,487,396 at April 30, 2006	8,493,396	8,487,396
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Additional paid-in capital	5,048,045	4,906,207
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Retained earnings	9,553,121	10,132,469
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Total stockholders' equity	<u>23,094,562</u>	<u>23,526,072</u>
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	<u>\$ 26,527,084</u>	<u>\$ 26,235,755</u>
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See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries  
Consolidated Statements of Operations  
Three Months Ended July 31, 2006 and 2005  
(Unaudited)

2006                  2005

Revenues	\$ 9,305,254	\$ 13,944,150
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Costs and expenses:

Cost of sales	6,900,201	9,745,866
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Engineering and development	306,856	266,490
Selling, general and administrative	2,441,108	2,492,905
	<u>9,648,165</u>	<u>12,505,261</u>
Earnings (loss) from operations	(342,911)	1,438,889
Other income (expense)		
Interest income, net	174,133	65,771
Currency gain (loss)	62,033	(40,458)
Other income	0	25,000
Total other income	<u>236,166</u>	<u>50,313</u>
Earnings (loss) before income taxes	(106,745)	1,489,202
Income tax expense (benefit)	(37,000)	558,000
Net earnings (loss)	<u>\$ (69,745)</u>	<u>\$ 931,202</u>
Net earnings (loss) per share of common stock		
Basic	<u>\$ (.01)</u>	<u>\$ .11</u>
Diluted	<u>\$ (.01)</u>	<u>\$ .11</u>
Dividends per common share	<u>\$ .06</u>	<u>\$ .05</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries  
Consolidated Statements of Cash Flows  
Three Months Ended July 31, 2006 and 2005  
(Unaudited)

	2006	2005
Cash flows from operating activities:		
Net earnings (loss)	\$ (69,745)	\$ 931,202
Adjustments to reconcile net earnings (loss) to net cash provided by (used in) operating activities:		
Depreciation and amortization	111,000	210,000
Bad debt expense	12,045	5,317
Stock-based compensation expense	133,963	0
Deferred income tax expense (benefit)	(26,000)	441,000
Changes in assets and liabilities:		
Decrease in trade receivables	210,661	1,512,711
Decrease (increase) in inventories	(1,347,771)	65,456
Increase in other current assets	(290,695)	(241,948)
Increase in other assets	0	(6,316)
Increase (decrease) in accounts payable	756,826	(898,088)
Decrease in accrued liabilities	(33,987)	(333,831)
Net cash provided by (used in) operating activities	<u>(543,703)</u>	<u>1,685,503</u>
Cash flows used in investing activities:		
Additions to property and equipment	(125,186)	(115,960)
Net cash used in investing activities	<u>(125,186)</u>	<u>(115,960)</u>
Cash flows from financing activities:		
Proceeds from sale of common shares under stock option plan	13,875	208,128

Tax benefit from sale of common shares under stock option plan	0	48,000
Purchase and subsequent cancellation of shares of common stock	0	(229,859)
Cash dividends	(509,603)	(419,809)
	<hr/>	<hr/>
Net cash used in financing activities	(495,728)	(393,540)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	(1,164,617)	1,176,003
Cash and cash equivalents at beginning of period	14,044,398	9,281,520
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Cash and cash equivalents at end of period	\$ 12,879,781	\$ 10,457,523
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Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 0	\$ 13,859
Income taxes	\$ 40,000	\$ 55,000

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries  
Notes to Consolidated Financial Statements  
July 31, 2006 and 2005  
(Unaudited)

(1) Basis of Presentation

The information for the three months ended July 31, 2006 and 2005, is unaudited but includes all adjustments (consisting only of normal recurring adjustments) which, in the opinion of management, are necessary to state fairly the financial information set forth therein in accordance with accounting principles generally accepted in the United States of America. The interim results are not necessarily indicative of results to be expected for the full fiscal year. These financial statements should be read in conjunction with the audited financial statements for the year ended April 30, 2006 included in the Company's 2006 Annual Report on Form 10-K filed with the Securities and Exchange Commission.

Net Earnings (loss) Per Share

Net earnings (loss) per share is presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings Per Share". Basic net earnings per share is computed by dividing the net earnings by the weighted average number of shares of common stock issued and outstanding during the period. For purposes of calculating basic earnings per share for the three months ended July 31, 2006, the denominator excludes the dilutive effect of stock options outstanding as their effect would be anti-dilutive. The calculation of diluted earnings per share for the quarter ended July 31, 2005 includes both the weighted average numbers of shares and 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 (loss) per share for fiscal 2006 and 2005:

Three Months ended July 31, 2006
Earnings    Shares    Per share
(numerator) (denominator) amount
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Basic net earnings (loss) per share			
- net earnings (loss) and weighted average common shares outstanding	\$ (69,745)	8,490,347	\$ (.01)

Effect of dilutive securities			
- stock options	-	-	-

Basic net earnings (loss) per share			
- net earnings (loss) and weighted average common shares outstanding	\$ (69,745)	8,490,347	\$ (.01)

Three Months ended July 31, 2005

Earnings	Shares	Per share
(numerator)	(denominator)	amount

Basic net earnings per share			
- net earnings and weighted average common shares outstanding	\$ 931,202	8,381,277	\$ .11

Effect of dilutive securities			
- stock options	-	373,954	-

Diluted net earnings per share			
- net earnings, weighted average common shares outstanding and effect of stock options	\$ 931,202	8,755,231	\$ .11

Diluted net earnings (loss) per share does not include the effect of options to purchase shares of common stock for the three months ended July 31, 2006 as their affect would be anti-dilutive.

Diluted net earnings per share does not include the effect of options to purchase 455,700 shares of common stock for the three months ended July 31, 2005 because they are anti-dilutive.

#### Dividends

On May 31, 2005 the Company's Board of Directors approved the initiation of a common stock quarterly cash dividend program. Cash dividends, paid in the three months ended July 31, 2006 were \$509,603. Cash dividends paid in the three months ended July 31, 2005 were \$419,809.

#### Subsequent Event

Subsequent to July 31, 2006, the Company entered into a Settlement and Release of Claims with a DRAM manufacturer pursuant to which the Company released all of its claims against the manufacturer arising from matters in litigation pursuant to a pending anti-trust class action. As consideration, the Company received in its fiscal second quarter \$2,300,000 in settlement, which amount will be recorded as other income in the Company's second quarter ended October 31, 2006.

#### Common Stock Repurchases

During the three months ended July 31, 2005, the Company repurchased 51,450 shares of common stock at a cost of \$229,859 and zero shares were repurchased in subsequent months ended July 31, 2006. Shares were purchased pursuant to a repurchase authorization announced on December 4, 2002 pursuant to which the Company was authorized to repurchase a total of 500,000 shares of its common stock. As of July 31, 2006, 172,196 shares remain available for repurchase under the plan. This repurchase program does not have an expiration date.

#### Stock-Based Compensation

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. 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.

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.

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 supersedes APB No. 25 and 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.

Prior to May 1, 2006, as permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," ("SFAS 123"), compensation cost for stock options was recognized using the intrinsic value method described in APB No. 25, "Accounting for Stock Issued to Employees" ("APB 25"). Effective May 1, 2006, the Company adopted the fair-value recognition provisions of SFAS No. 123(R), "Share-Based Payment," ("SFAS 123R") and Securities and Exchange Commission Staff Accounting Bulletin No. 107. Under SFAS 123R, the fair value of options granted is amortized over the related service period. SFAS 123R was adopted using the modified prospective transition method; therefore, prior periods have not been restated. Compensation expense recognized in the three months ended July 31, 2006 includes compensation cost for all share-based payments granted prior to, but not yet vested as of May 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123. Compensation cost for any share-based payments granted subsequent to May 1, 2006 will be based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

As a result of adopting SFAS 123R, our earnings before taxes and net earnings for the three months ended July 31, 2006 are \$134,000 and \$87,000 lower, respectively, than if we had continued to account for stock-based compensation under APB 25. This resulted in a decrease in our reported basic and diluted net earnings per share of \$.01 and \$.01, respectively, for the three months ended July 31, 2006. 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. We

measure the fair value of stock options 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 \$0.06 and risk-free interest rates ranging from 3.0% to 5.0%. Stock options are amortized over their applicable vesting period, which generally ranges from one to four years. These stock option grants have been classified as equity instruments, and as such, a corresponding increase of \$134,000 has been reflected in additional paid-in capital in the accompanying balance sheet as of July 31, 2006. There were no capitalized stock-based compensation costs at April 30, 2006.

Prior to the adoption of SFAS 123R, benefits of tax deductions in excess of recognized compensation costs were reported as operating cash flows. SFAS 123R requires excess tax benefits to be reported as a financing cash inflow rather than as reduction of taxes paid. The Company had zero and \$48,000, respectively, of excess tax benefits for the three months ended July 31, 2006 and 2005.

A summary of option activity under the plans for the three months ended July 31, 2006

is as follows:

	Shares	Weighted average exercise price	Weighted average remaining life	Aggregate contractual intrinsic value*	
Balance					
April 30, 2006	1,299,375	\$4.78	3.65	\$ 252,000	
Granted	-	-	-	-	
Exercised	(6,000)	\$2.31	-	16,000	
Cancelled	(3,500)	\$6.63	-	-	
Balance					
July 31, 2006	1,289,875	\$4.95	3.39	\$1,344,000	
Vested					
July 31, 2006	1,045,500	\$4.80	2.80	\$1,287,000	

\* These amounts represent the difference between the exercise price and \$4.68, the closing price of Dataram common stock on July 31, 2006 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 the first quarter ended July 31, 2006 was \$14,000. No options completed vesting during the first quarter ended July 31, 2006. As of July 31, 2006, there was \$269,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of 1.29 years. At July 31, 2006, an aggregate of 1,255,950 shares were authorized for future grant under the Company's stock option plans.

The following table illustrates the pro forma effect on net earnings and earnings per share for the fiscal quarter ended July 31, 2005 as if the Company had applied the fair value recognition provisions of SFAS 123R to stock-based compensation:

	Three Months Ended July 31, 2005
Net earnings as reported	\$ 931,202
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects ....	(171,940)

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Pro forma net earnings.... \$ 759,262  
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Earnings per share:

Basic - as reported ..... \$ 0.11  
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Basic - pro forma ..... \$ 0.09  
=====

Diluted - as reported ..... \$ 0.11  
=====

Diluted - pro forma ..... \$ 0.09  
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(2) Cash and cash equivalents

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

(3) Inventories

Inventories are valued at the lower of cost or market, with costs determined by the first-in, first-out method. Inventories at July 31, 2006 and April 30, 2006 consist of the following categories:

	July 31, 2006	April 30, 2006
Raw materials	\$ 2,595,000	\$ 1,506,000
Work in process	118,000	63,000
Finished goods	824,000	620,000
	<u>\$ 3,537,000</u>	<u>\$ 2,189,000</u>

(4) Note receivable/Other income

On July 29, 2002, the Company entered into an agreement to sell its undeveloped land for a price of \$3,000,000. The agreement was amended on October 20, 2004. The amendment extended the term of the agreement to September 29, 2005. The agreement was further amended on September 29, 2005. The amendment extended the term of the agreement to March 29, 2006 and the purchase price was amended to \$3,150,000. The increase in purchase price was subject to pro rata reduction if a closing occurred prior to March 29, 2006. On December 29, 2005, this sale closed. The purchase price was \$3,075,000 of which half, or \$1,537,500 was paid in the form of a one-year mortgage, which accrues interest at 5% per annum. Of the remainder, \$250,000 had been previously paid as deposits and \$1,287,500 was received at closing in cash. Prior to the closing, the land had been carried at cost on the Company's balance sheet at a value of \$875,000 and was shown as an asset held for sale.

(5) Financial information by geographic location

The Company operates in one business segment and develops, manufactures and markets a variety of memory systems for use with network servers and workstations which are manufactured by various companies. Revenues for the three months ended July 31, 2006 and 2005 by geographic region are as follows:

	Three months ended July 31, 2006	Three months ended July 31, 2005
United States	\$ 6,308,000	\$ 10,726,000
Europe	2,171,000	2,631,000
Other (principally Asia Pacific Region)	826,000	587,000
Consolidated	<u>\$ 9,305,000</u>	<u>\$ 13,944,000</u>

Long-lived assets consist of property and equipment. Long-lived assets and total assets by geographic region as of July 31, 2006 is as follows:

	July 31, 2006	
	Long-lived assets	Total assets
United States	\$ 966,000	\$ 26,009,000
Europe	0	507,000
Other	0	11,000
Consolidated	\$ 966,000	\$ 26,527,000

#### (6) Significant New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs, an amendment of Accounting Research Bulletin (ARB) No. 43, Chapter 4". SFAS 151, amends ARB 43, Chapter 4, to clarify that abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) should be recognized as current-period charges. In addition, this statement requires that allocation of fixed production overheads to the cost of conversion be based on the normal capacity of the production facilities. The provisions of this statement are effective for the Company beginning May 1, 2006 and had no material effect on the Company's consolidated balance sheet as of July 31, 2006, and the related consolidated statements of operations and cash flows for the period then ended.

#### (7) Concentration of credit risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents and trade receivables. 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. In regard to trade receivables, the Company performs ongoing evaluations of its customers' financial condition, as well as general economic conditions and, generally, requires no collateral from its customers.

#### (8) 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.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and section 21E of the Securities and Exchange Act of 1934, as amended. The information provided in this interim report may include forward-looking statements relating to future events, such as the development of new products, pricing and availability of raw materials or the future financial performance of the Company. Actual results may differ from such projections and are subject to certain risks including, without limitation, risks arising from: changes in the price of memory chips, changes in the demand for memory systems for workstations and servers, increased competition in the memory systems industry, delays in developing and commercializing new products and other factors described in the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission which can be reviewed at <http://www.sec.gov>.

### Executive 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, Silicon Graphics 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 a manufacturing facility 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 DRAM chips typically represents approximately 75% 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.

#### Liquidity and Capital Resources

The Company's cash and working capital position remain strong. As of July 31, 2006, cash and cash equivalents amounted to \$12.9 million and working capital amounted to \$21.0 million, reflecting a current ratio of 7.1, compared to cash and cash equivalents of \$14.0 million and working capital of \$21.4 million and a current ratio of 8.9 as of April 30, 2006.

During the fiscal quarter ended July 31, 2006, net cash used in operating activities totaled approximately \$544,000. Inventory increased by approximately \$1.3 million, primarily as result of an increase of material related purchases necessitated by recent changes in the DRAM marketplace. Currently, DRAMs are not as readily available as they had been in the recent past. Other current assets increased by approximately \$291,000, primarily as a result of an increase in prepaid expenses related to annual maintenance contracts and annual insurance deposits. The net cash uses were offset by an increase in account payable of \$757,000, non-cash stock-based compensation of \$134,000 and depreciation and amortization expense of \$111,000. Trade receivables also decreased by approximately \$211,000 from year-end levels.

Net cash used in investing activities of approximately \$125,000 for the three months ended July 31, 2006, consists of expenditures for leasehold improvements and capital expenditures substantially related to the acquisition of production equipment.

Net cash used in financing activities of approximately \$496,000 for the three months ended July 31, 2006, consists of approximately \$510,000 cash dividend payments, offset by approximately \$14,000 of cash received from stock option exercises.

On June 21, 2004, the Company entered into a credit facility with a bank, which provides for up to a \$5 million revolving credit line. Advances under the facility are limited to 75% of eligible receivables, as defined in the agreement. The agreement provides for LIBOR rate loans and base rate loans at an interest rate no higher than the bank's base commercial lending rate. The Company is required to pay a commitment fee equal to one quarter of one percent per annum on the unused commitment. The agreement contains certain restrictive covenants, specifically a trailing twelve month profitability requirement, a current assets to current liabilities ratio, a total liabilities to tangible net worth ratio and certain other covenants, as defined in the agreement. The agreement was amended on April 4, 2005. The effect of the amendment was to increase the limit of the Company's combined open market stock repurchases and dividend payments to \$2.5 million per year from \$1.0 million per year without prior waiver. The agreement was scheduled to expire on June 21, 2006. On June 20, 2006, the agreement was amended. The effect of amendment was to extend the expiration date of the agreement to August 15, 2008 and remove the eligible accounts receivable limitation on advances under the facility. The amendment also modified the total liabilities to tangible net worth ratio covenant. The Company is in compliance with all covenants of the agreement and there have been no borrowings against the credit line.

Subsequent to the end of the first quarter, the Company entered into a

Settlement and Release of Claims with a DRAM manufacturer pursuant to which the Company released all of its claims against the manufacturer arising from matters in litigation pursuant to a pending anti-trust class action. As consideration, the Company received in its fiscal second quarter \$2,300,000 in settlement.

Management believes that the Company's existing cash along with cash flows generated from operations will be sufficient to meet short term liquidity needs as the Company does not expect any unforeseen demands beyond general operating requirements for cash. Management further believes that its working capital together with internally generated funds from its operations and its bank line of credit are adequate to finance the Company's long term operating needs and future capital requirements.

Future minimum lease payments under noncancellable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2006 are as follows:

Year ending April 30:	Operating leases
2007	\$ 417,000
2008	389,000
2009	397,000
2010	404,000
2011	360,000
Thereafter	34,000
	<hr/>
Total minimum lease payments	\$ 2,001,000
	<hr/> <hr/>

The Company has no other material commitments.

#### Results of Operations

Revenues for the three-month period ended July 31, 2006 were \$9,305,000 compared to revenues of \$13,944,000 for the comparable prior year period. The decrease in revenues is primarily attributable to a decrease in shipments to one OEM customer. Last year's fiscal first quarter included revenues of \$3,202,000 from shipments to that customer compared to nil for the comparable current year period. The balance of the decrease in revenues from the prior year's first quarter primarily resulted from a 34% decrease in average selling prices attributable to a decline in the price of DRAM chips, the primary raw material used in the Company's products. Revenues for the three-month periods ended July 31, 2006 and 2005 by geographic region were:

	Three months ended July 31, 2006	Three months ended July 31, 2005
United States	\$ 6,308,000	\$ 10,726,000
Europe	2,171,000	2,631,000
Other (principally Asia Pacific Region)	826,000	587,000
Consolidated	<hr/> \$ 9,305,000 <hr/>	<hr/> \$ 13,944,000 <hr/>

Cost of sales for the first quarter fiscal 2007 were 74% of revenues, versus 70% for the same prior year period. Prior year's first quarter's cost of sales were lower than the Company's historical norm and reflect a higher than normal shipment rate of larger capacity memory, which typically command higher margins. Cost of sales as a percent of revenue will generally be

approximately 75%, which is in line with its historical norm. Fluctuations either up or down of 3% or less in any given quarter are not unusual and are considered normal by management and can result from many factors, some of which are a rapid change in the price of DRAMs, or a change in product mix possible resulting from a large order or series of orders for a particular product or a change in customer mix.

Engineering and development costs in fiscal 2007's first quarter were \$307,000, versus \$266,000 for the same prior year period. The increase is primarily related to employee related cost. The Company intends to maintain its commitment to the timely introduction of new memory products as new computers are introduced.

Selling, general and administrative costs in fiscal 2007's first quarter decreased by \$52,000 from the comparable prior year period. Included in the current fiscal year's first quarter expense is \$134,000 of employee based stock option expense compared to zero in the prior year's first quarter. Excluding the stock option expense, selling, general and administrative expenses declined by \$186,000 in fiscal 2007's first quarter from the comparable prior year period. This reduction is primarily the result of reduced employee related costs due to natural attrition.

Other income (expense), net for the first quarter fiscal 2007 totaled \$236,000 income, versus \$50,000 income for the same prior year period. Other income in fiscal 2007's first quarter consisted primarily of \$174,000 of net interest income received in the current quarter. Additionally, the current quarter other income included \$62,000 of foreign currency gain, primarily as a result of the EURO strengthening relative to the US dollar. Fiscal 2006's first quarter other income, net totaled \$50,000 and consisted of approximately \$66,000 of interest income and \$25,000 of other income for a scheduled non-refundable payment released from escrow related to the sale of the Company's land. Offsetting fiscal 2006's first quarter other income was \$40,000 of foreign currency loss, primarily as a result of the US dollar strengthening relative to the EURO.

Income tax expense (benefit) for the first quarter of fiscal 2007 was \$37,000 benefit compared to \$558,000 expense for the same prior year period. The Company's effective tax rate for financial reporting purposes in fiscal 2007 is approximately 34.7%. However, the Company has federal NOL carry-forwards totaling approximately \$4.8 million and therefore will continue to make cash payments for income taxes at an approximate rate of 6.5% of pretax earnings until it utilizes all of its NOL carry-forwards.

#### 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 the Company's Form 10-K for the fiscal year ended April 30, 2006, the Company 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 123(R)") was issued. SFAS 123(R) 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. However, SFAS 123 as amended permitted entities the option of continuing to apply the intrinsic value method under APB 25 that the Company had been using, as long as the footnotes to the financial statements disclosed what net income would have been had the preferable fair value-based method been used. SFAS 123(R) requires that the compensation cost relating to all share-based payment transactions, including employee stock options, be recognized in the historical financial statements. That cost is measured based on the fair value of the equity or liability instrument issued and amortized over the related service period. The Company has adopted the guidance in SFAS 123(R) effective May 1, 2006. As such, the accompanying consolidated statement of operations for the three months ended July 31, 2006 includes \$134,000 of compensation expense in the stock option 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 is being amortized over the service period in the financial statements, as required by SFAS 123(R). These awards have been classified as equity instruments, and as such, a corresponding increase of \$134,000 has been reflected in additional paid-in capital in the accompanying balance sheet as of July 31, 2006.

**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". 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The Company does not invest in market risk sensitive instruments. The Company's investments consist of overnight deposits with banks 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.

### ITEM 4. CONTROLS AND PROCEDURES.

Dataram's management acting under the supervision of the Audit Committee is responsible for establishing and maintaining adequate internal controls and procedures to permit accurate financial reporting. Under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of our disclosure controls and procedures pursuant to Exchange Act Rule 13a-15(e) 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 quarter ended July 31, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II: OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS.

None.

### Item 1A. RISK FACTORS.

No changes from Annual Report on Form 10-K.

### Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

No reportable event.

### Item 3. DEFAULTS UPON SENIOR SECURITIES.

No reportable event.

### Item 4. SUBMISSION OF MATTERS TO VOTE OF SECURITY HOLDERS.

No reportable event.

### Item 5. OTHER INFORMATION.

No reportable event.

### Item 6. EXHIBITS.

Exhibit No. Description

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31(a) Rule 13a-14(a) Certification of Robert V. Tarantino.

31(b) Rule 13a-14(a) Certification of Mark E. Maddocks.

32(a) Section 1350 Certification of Robert V. Tarantino (furnished not filed).

32(b) Section 1350 Certification of Mark E. Maddocks (furnished not filed).

Signatures

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 thereunto duly authorized.

DATARAM CORPORATION

MARK E. MADDOCKS

Date: September 12, 2006      By:

\_\_\_\_\_  
Mark E. Maddocks  
Vice President, Finance  
(Principal Financial Officer)

Exhibit 31(a)

CERTIFICATION

I, Robert V. Tarantino, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dataram Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record,

process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

ROBERT V. TARANTINO

Date: September 12, 2006

\_\_\_\_\_  
Robert V. Tarantino, President  
and Chief Executive Officer

CERTIFICATION

I, Mark E. Maddocks, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Dataram Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's independent registered public accounting firm and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

MARK E. MADDOCKS

Date: September 12, 2006

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

Exhibit 32(a)

Section 1350 Certification  
of  
Robert V. Tarantino

I certify that the Quarterly Report of Dataram Corporation with which this Certification is furnished fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Dataram Corporation.

September 12, 2006

ROBERT V. TARANTINO

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Robert V. Tarantino  
President and  
Chief Executive Officer

Exhibit 32(b)

Section 1350 Certification  
of  
Mark E. Maddocks

I certify that the Quarterly Report of Dataram Corporation with which this Certification is furnished fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended, and that the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Dataram Corporation.

September 12, 2006

MARK E. MADDOCKS

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