

UNITED STATES
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 July 31, 2012

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

(Exact name of registrant as specified in its charter)

New Jersey

(State or other jurisdiction of
incorporation or organization)

22-1831409

(I.R.S. Employer Identification No.)

P.O. Box 7528, Princeton, NJ

(Address of principal executive offices)

08543

(Zip Code)

(609) 799-0071

(Registrant's telephone number, including area code)

(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 has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). 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 Smaller reporting company

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 latest practicable date.
Common Stock (\$1.00 par value): As of September 10, 2012, there were 10,703,309 shares outstanding.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

**Dataram Corporation and Subsidiaries
Consolidated Balance Sheets
July 31, 2012 and April 30, 2012**

	<u>July 31, 2012</u>	<u>April 30, 2012</u>
	<u>(Unaudited)</u>	<u>(Note 1)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,122,971	\$ 3,274,741
Accounts receivable, less allowance for doubtful accounts and sales returns of \$200,000 at July 31, 2012 and April 30, 2012	3,015,096	2,604,775
Inventories	3,801,321	2,932,072
Other current assets	500,585	115,652
Total current assets	<u>8,439,973</u>	<u>8,927,240</u>
Note receivable	375,000	-
Property and equipment, at cost:		
Machinery and equipment	11,975,980	11,975,980
Leasehold improvements	607,867	607,867
	<u>12,583,847</u>	<u>12,583,847</u>
Less: accumulated depreciation and amortization	11,945,435	11,885,435
Net property and equipment	638,412	698,412
Other assets	81,449	54,832
Intangible assets, net of accumulated amortization	255,666	296,566
Goodwill	1,453,034	1,453,034
	<u>\$ 11,243,534</u>	<u>\$ 11,430,084</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Note payable-revolving credit line	\$ 951,383	\$ 120,986
Accounts payable	1,172,145	1,017,328
Accrued liabilities	645,720	765,623
Due to related party – current portion	366,667	333,333
Total current liabilities	<u>3,135,915</u>	<u>2,237,270</u>
Due to related party – long term	1,600,000	1,666,667
Total liabilities	<u>4,735,915</u>	<u>3,903,937</u>
Stockholders' equity:		
Common stock, par value \$1.00 per share.		
Authorized 54,000,000 shares; issued and outstanding 10,703,309 at July 31, 2012 and April 30, 2012	10,703,309	10,703,309
Treasury stock 181,554 shares as of July 31, 2012 and 43,900 shares as of April 30, 2012 at cost	(187,561)	(45,299)
Additional paid-in capital	10,395,217	10,295,766
Accumulated deficit	<u>(14,403,346)</u>	<u>(13,427,629)</u>
Total stockholders' equity	<u>6,507,619</u>	<u>7,526,147</u>
	<u>\$ 11,243,534</u>	<u>\$ 11,430,084</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries
Consolidated Statements of Operations
Three Months Ended July 31, 2012 and 2011
(Unaudited)

	2012	2011
Revenues	\$ 7,998,485	\$ 10,269,806
Costs and expenses:		
Cost of sales	6,304,447	7,375,471
Engineering	206,108	181,436
Selling, general and administrative	2,354,217	3,453,091
	8,864,772	11,009,998
Loss from operations	(866,287)	(740,192)
Other income (expense):		
Interest expense, net	(71,382)	(102,598)
Currency loss	(38,048)	(11,167)
Total other expense, net	(109,430)	(113,765)
Loss before income taxes	(975,717)	(853,957)
Income tax expense	-	-
Net loss	\$ (975,717)	\$ (853,957)
Net loss per share of common stock		
Basic	\$ (.09)	\$ (.08)
Diluted	\$ (.09)	\$ (.08)

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Three Months Ended July 31, 2012 and 2011
(Unaudited)

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Net loss	\$ (975,717)	\$ (853,957)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	100,900	178,567
Bad debt expense	3,296	1,412
Stock-based compensation expense	99,451	148,252
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	(413,617)	790,831
Decrease (increase) in inventories	(869,249)	128,734
Increase in other current assets	(384,933)	(35,029)
Decrease (increase) in other assets	(26,617)	14,525
Increase (decrease) in accounts payable	154,817	(1,009,820)
Increase (decrease) in accrued liabilities	(119,903)	64,341
Net cash used in operating activities	<u>(2,431,572)</u>	<u>(572,144)</u>
Cash flows from investing activities:		
Acquisition of business	-	(57,364)
Additions to property and equipment	-	(205,067)
Software development costs	-	(632,638)
Issuance of note receivable	(375,000)	-
Net cash used in investing activities	<u>(375,000)</u>	<u>(895,069)</u>
Cash flows from financing activities:		
Net borrowings (payments) under revolving credit line	830,397	(1,129,072)
Payments under related party note payable	(33,333)	-
Net proceeds from sale of common shares	-	2,997,875
Purchase of treasury stock	(142,262)	-
Net cash provided by financing activities	<u>654,802</u>	<u>1,868,803</u>
Net increase (decrease) in cash and cash equivalents	(2,151,770)	401,590
Cash and cash equivalents at beginning of period	<u>3,274,741</u>	<u>345,105</u>
Cash and cash equivalents at end of period	<u>\$ 1,122,971</u>	<u>\$ 746,695</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	<u>\$ 71,114</u>	<u>\$ 92,858</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries
Notes to Consolidated Financial Statements
July 31, 2012 and 2011
(Unaudited)

(1) Basis of Presentation

The information for the three months ended July 31, 2012 and 2011 is unaudited, but includes all adjustments (consisting 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, 2012 included in the Company's 2012 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The April 30, 2012 balance sheet has been derived from these statements.

The consolidated financial statements for the three months ended July 31, 2012 and 2011 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.

Based on the cash provided by a securities purchase agreement entered into in May 2011 and described in Note 11, and the cash flows provided from a sale of the patents in March of 2012 along with the Company's ability to borrow under its current agreement with a financial institution, management has concluded that the Company's short-term liquidity needs have been satisfied. There can be no assurance, however, that in the short-term, realized revenues will be in line with the Company's projections. Actual results may differ from such projections and are subject to certain risks including, without limitation, risks arising from: an adverse change in general economic conditions, changes in the price of memory chips, changes in the demand for memory systems for workstations and servers, changes in the demand for storage caching subsystems, increased competition in the memory systems and storage industries and other factors described in the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. Management continues to evaluate the Company's liquidity needs and expense structure and adjust its business plan as necessary. In order to satisfy long-term liquidity needs, the Company will need to generate profitable operations and positive cash flows.

(2) Summary of Significant Accounting Policies

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 collectability of note receivable, the deferred income tax asset valuation allowance and other operating allowances and accruals. Actual results could differ from those estimates.

Engineering and Research and Development

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 had an uncertainty in receiving future economic benefits. Development costs of a computer software product to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product's technological feasibility has been established and ending when a product is available for general release to customers. Technological feasibility of a computer software product is established when all planning, designing, coding and testing activities that are necessary to establish that the product can be produced to meet its design specifications (including functions, features and technical performance requirements) are completed. The Company had been developing computer software for its XcelaSAN storage caching product line. On November 4, 2010, the Company determined that technological feasibility of the product was established, and development costs subsequent to that date have been capitalized. Prior to November 4, 2010, the Company expensed all development costs related to this product line. In the third quarter of fiscal 2012 when the product was made available for general release to customers, the Company discontinued capitalizing development costs.

During the third quarter of fiscal 2012, the XcelaSAN product was available for general release and generated approximately \$8,000 of revenue, which was significantly lower than expected. The Company capitalized approximately \$907,000 of XcelaSAN development cost in the first six months of fiscal 2012. The Company capitalized approximately \$1,480,000 of XcelaSAN research and development costs in fiscal 2011. The Company determined in fiscal 2012's third quarter based on the estimated future net realizable value for the expected periods of benefit that the carrying value of capitalized software development cost was impaired. As such, approximately \$2,387,000 of capitalized software development cost was written down to zero.

Advertising

Advertising is expensed as incurred and amounted to approximately \$25,000 in fiscal 2013's first quarter compared to approximately \$98,000 in the comparable prior year period.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes in accordance with the provisions of the "Expenses – Income Taxes Topic" of the Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC"). Under the asset and liability method, deferred income 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 income 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 income 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. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that the tax rate changes. The Company recognizes, in its consolidated financial statements, the impact of a tax position, if that position is more likely than not to be sustained on audit, based on technical merits of the position. There are no material unrecognized tax positions in the financial statements. As of July 31, 2012, the Company had Federal and state net operating loss ("NOL") carry-forwards of approximately \$19.0 million and \$17.1 million, respectively. These can be used to offset future taxable income and expire between 2023 and 2032 for Federal tax purposes and 2016 and 2032 for state tax purposes. The Company's NOL carry-forwards are a component of its deferred income tax assets which are reported net of a full valuation allowance in the Company's consolidated financial statements at July 31, 2012 and April 30, 2012.

Net Loss Per Share

Basic net loss per share is computed by dividing the net loss by the weighted average number of shares of common stock issued and outstanding during the period. The calculation of diluted loss per share for the three months ended July 31, 2012 and 2011 includes only the weighted average number of shares of common stock outstanding. The denominator excludes the dilutive effect of stock options and warrants outstanding as their effect would be anti-dilutive.

The following presents a reconciliation of the numerator and denominator used in computing basic and diluted net loss per share for the three month periods ended July 31, 2012 and 2011:

	Three Months ended July 31, 2012		
	Loss (numerator)	Shares (denominator)	Per share amount
Basic net loss per share – net loss and weighted average common shares outstanding	\$ (975,717)	10,703,309	\$ (.09)
Effect of dilutive securities – stock options	—	—	—
Effect of dilutive securities – warrants	—	—	—
Diluted net loss per share – net loss, weighted average common shares outstanding and effect of stock options and warrants	<u>\$ (975,717)</u>	<u>10,703,309</u>	<u>\$ (.09)</u>

	Three Months ended July 31, 2011		
	Loss (numerator)	Shares (denominator)	Per share amount
Basic net loss per share – net loss and weighted average common shares outstanding	\$ (853,957)	10,394,613	\$ (.08)
Effect of dilutive securities – stock options	—	—	—
Effect of dilutive securities – warrants	—	—	—
Diluted net loss per share – net loss, weighted average common shares outstanding and effect of stock options and warrants	<u>\$ (853,957)</u>	<u>10,394,613</u>	<u>\$ (.08)</u>

Diluted net loss per common share for the three month periods ended July 31, 2012 and 2011 do not include the effect of options to purchase 1,895,900 and 1,899,200 shares, respectively, of common stock because they are anti-dilutive. Diluted net loss per common share for the three month periods ended July 31, 2012 and 2011 do not include the effect of warrants to purchase 1,331,250 and nil shares, respectively, of common stock because they are anti-dilutive.

Common Stock Repurchases

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. On April 10, 2012, the Company announced the additional authorization to repurchase up to 828,000 shares of the Company's common stock which at that time made the total available for purchase of up to 1,000,000 shares. In fiscal 2013's first quarter ended July 31, 2012 the Company repurchased 137,664 shares for a total cost of \$142,262, versus nil in the prior year first quarter. As of July 31, 2012, the total number of shares authorized for purchase under the program is 818,436 shares.

Stock Option Expense

a. Stock-Based Compensation

The Company 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. 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. No further options may be granted under this plan.

The Company also has a 2011 incentive and non-statutory stock option plan for the purpose of permitting certain key employees and consultants to acquire equity in the Company and to promote the growth and profitability of the Company by attracting and retaining key employees. No executive officer or director of the Company is eligible to receive options under the 2011 plan. In general, the plan allows granting of up to 200,000 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. 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. There have been nil shares granted under this plan.

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. Vesting periods for options currently granted range from one to two years.

On September 23, 2010, the Company granted Mr. Sheerr, who is employed by the Company as the General Manager of the acquired MMB business unit described in Note 4 and is an executive officer of the Company, nonqualified stock options to purchase 100,000 shares of the Company's common stock pursuant to his employment agreement. On September 22, 2011, the Company granted Mr. Sheerr additional nonqualified stock options to purchase 100,000 shares of the Company's common stock, pursuant to his employment agreement. On July 19, 2012, the Company granted Mr. Sheerr additional nonqualified stock options to purchase 100,000 shares of the Company's common stock, also pursuant to his employment agreement. The options granted are exercisable at a price representing the fair value at the date of grant and expire five years after date of grant. The options vest in one year.

New shares of the Company's common stock are issued upon exercise of stock options.

As required by the "Compensation - Stock Compensation Topic" of the FASB, 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 are accounted for using a fair value-based method with a recognition of an expense for compensation cost related to share-based payment arrangements, including stock options and employee stock purchase plans.

Our consolidated statements of operations for the three months ended July 31, 2012 and July 31, 2011 include approximately \$99,000 and \$148,000 of stock-based compensation expense, respectively. These stock option grants have been classified as equity instruments and, as such, a corresponding increase has been reflected in additional paid-in capital in the accompanying consolidated balance sheets. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option pricing model.

A summary of option activity for the three months ended July 31, 2012 is as follows:

	<u>Shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (1)</u>	<u>Aggregate intrinsic value (2)</u>
Balance April 30, 2012	1,745,900	\$ 2.34	5.29	\$ 0
Granted	100,000	\$ 0.69	–	–
Exercised	0	–	–	–
Expired	0	–	–	–
Balance July 31, 2012	<u>1,845,900</u>	\$ 2.25	5.05	\$ 0
Exercisable July 31, 2012	<u>1,397,400</u>	\$ 2.51	5.01	\$ 0
Expected to vest July 31, 2012	<u>1,754,000</u>	\$ 2.25	5.05	–

- (1) This amount represents the weighted average remaining contractual life of stock options in years.
- (2) This amount represents the difference between the exercise price and \$0.64, the closing price of Dataram common stock on July 31, 2012 as reported on the NASDAQ Stock Market, for all in-the-money options outstanding and all the in-the-money shares exercisable. There were nil in-the-money options at July 31, 2012.

As of July 31, 2012, there was approximately \$141,000 of total unrecognized compensation costs related to stock options. These costs are expected to be recognized over a weighted average period of approximately six months.

b. Other Stock Options

On June 30, 2008, 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 of \$2.60 per share, which was the fair value at the date of grant, were 100% exercisable on the date of grant and expire ten years after the date of grant.

(3) 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. 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 Company business unit to be operated as a result of the acquisition of the ("MMB business unit") and consists of a percentage, averaging 65%, payable quarterly, over the subsequent four years from acquisition date of earnings before interest, taxes, depreciation and amortization of the MMB business unit. For the three month period ended July 31, 2012, this amount totaled nil, in the comparable prior year period the amount totaled \$57,364. The net assets acquired by the Company were recorded at their respective fair values under the purchase method of accounting. The results of operations of MMB for the period from the acquisition date, March 31, 2009, through July 31, 2012 have been included in the consolidated results of operations of the Company.

(4) Related Party Transactions

During the three month periods ending July 31, 2012 and 2011, the Company purchased inventories for resale totaling approximately \$1,225,000 and \$1,350,000, respectively, from Sheerr Memory, LLC ("Sheerr Memory"). Sheerr Memory's owner ("Mr. Sheerr") is employed by the Company as the general manager of the acquired MMB business unit described in Note 3 and is an executive officer of the Company. When the Company acquired certain assets of MMB, it did not acquire any of its inventories. 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 \$438,000 and \$557,000 of accounts payable in the Company's consolidated balance sheets as of July 31, 2012 and 2011, respectively, is payable to Sheerr Memory. 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 July 31, 2012 and management anticipates that the Company will continue to do so, although the Company has no obligation to do so.

On December 14, 2011, the Company entered into a Note and Security Agreement with Mr. Sheerr. The agreement provides for secured financing of up to \$2,000,000. The Company is obligated to pay monthly, interest equal to 10% per annum calculated on a 360 day year of the outstanding loan balance. Principal is payable in sixty equal monthly installments, beginning on July 15, 2012. The Company may prepay any or all sums due under this agreement at any time without penalty. On closing, the Company borrowed \$1,500,000 under the agreement and repaid in full the \$1,500,000 due under a previous Note. The Company has borrowed the full \$2,000,000 available under this agreement. Principal amounts due under this obligation are \$33,333 per month beginning on July 15, 2012. For the next fiscal year following April 30, 2012, the principal amount due under this obligation is \$333,333. In each of four fiscal periods from May 1, 2013 thru April 30, 2017, the principal amounts due under this obligation are \$400,000. In the fiscal period from May 1, 2017 thru June 30, 2017, the principal amount due on this obligation is \$66,667. Interest payable to Mr. Sheerr on July 31, 2012 was \$16,935. Interest expense recorded for Mr. Sheerr in the first quarter of fiscal 2013 was \$50,824. Interest expense recorded for Sheerr Memory in the first quarter of fiscal 2012 was \$35,389. Interest payable to Sheerr Memory at July 31, 2011 was \$12,495.

(5) Cash and Cash Equivalents

Cash and cash equivalents consist of unrestricted cash and money market accounts.

(6) Accounts Receivable

Accounts receivable consists of the following categories:

	July 31, 2012	April 30, 2012
Trade receivables	\$ 3,133,755	\$ 2,620,461
VAT receivable	81,341	184,314
Allowance for doubtful accounts and sales returns	(200,000)	(200,000)
	<u>\$ 3,015,096</u>	<u>\$ 2,604,775</u>

(7) 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, 2012 and April 30, 2012 consist of the following categories:

	July 31, 2012	April 30, 2012
Raw materials	\$ 2,484,142	\$ 1,921,151
Work in process	28,404	29,767
Finished goods	1,288,775	981,154
	<u>\$ 3,801,321</u>	<u>\$ 2,932,072</u>

(8) Note Receivable

On July 30, 2012, a Convertible Senior Promissory Note was executed by and between Shoreline Memory, Inc. (Shoreline) and the Company whereby the Company will lend up to \$1.5 million to Shoreline in exchange for interest payments at prime plus 3.0% and the right to convert the amount outstanding into common stock of Shoreline on or before its maturity date. Each time the Company advances money under the note, the Company is granted 1% of the common stock for every \$100,000 advanced up to a maximum of 15%. This is in addition to the 15% allowable under the conversion of the note and the warrant to acquire 30% of Shoreline common stock. The conversion is at the rate of 1% of the outstanding common stock for each \$100,000 converted up to a maximum of 15%. This note matures in three years and at that time Shoreline must repay the note or the Company must convert the note into common stock. The note is secured by all the assets of Shoreline and Shoreline Capital Management Ltd. ("Shoreline Capital") as guarantor. Also executed with the note was a warrant to purchase 30% of the outstanding common stock of Shoreline at the time of exercise and the warrant expires sixty days after the third anniversary. The warrant prescribes a formula to determine the price per share at the time of exercise. If all the amounts under the note are advanced and converted and the full warrant is exercised, the Company will own 60% of the outstanding common stock of Shoreline. The note was executed simultaneously with a Master Services Agreement, which details the parameters under which the Company and Shoreline will fulfill orders from Shoreline's primary customer. On July 31, 2012, the Company advanced \$375,000 under the note and an additional \$375,000 on August 1, 2012. The purpose of the loan was to fund startup expenses and to prepay initial orders. The additional monies which may be borrowed is to continue to fund purchases for orders received. Simultaneously with the issuance of the Note, the Company acquired for \$176, 15% of the equity ownership of Shoreline. The Company has placed no value on its investment in Shoreline, as it is a startup operation, with no equity as of July 31, 2012.

(9) Intangible Assets and Goodwill

Intangible assets with determinable lives, other than customer relationships and research and development are amortized on a straight-line basis over their estimated period of benefit, ranging from four to five years. Research and development and customer relationships are amortized over a two-year period at a rate of 65% of the gross value acquired in the first year subsequent to their acquisition and 35% of the gross value acquired in the second year. 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 with definitive lives are subject to amortization. No impairments of intangible assets have been identified during any of the periods presented. Goodwill is tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist, using a fair-value-based approach. The date of our annual impairment test is March 1.

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 for the three months ended July 31, 2012 and 2011 totaled approximately \$41,000 in each period. Intangible asset amortization is included in selling, general and administrative expense. The components of finite-lived intangible assets acquired are as follows:

	Weighted Average Life	July 31, 2012	April 30, 2012
Trade names	5 Years	\$ 733,000	\$ 733,000
Customer relationships	2 Years	758,000	758,000
Non-compete agreement	4 Years	68,000	68,000
Total gross carrying amount		<u>1,559,000</u>	<u>1,559,000</u>
Less accumulated amortization expense		1,303,334	1,262,434
Net intangible assets		<u>\$ 255,666</u>	<u>\$ 296,566</u>

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

Year ending April 30:	
2013	\$ 162,566
2014	<u>134,000</u>
	<u>\$ 296,566</u>

(10) Financing Agreements

On July 27, 2010, the Company entered into an agreement with a financial institution for formula-based secured debt financing of up to \$5,000,000. Borrowings are secured by substantially all assets. On March 2, 2012, the agreement was amended to reduce the amount available under the credit facility to \$3,500,000 which, according to the Company's projections, will be sufficient to allow for maximum borrowing under the formulas provided for in the agreement. On May 17, 2012, the agreement was amended and restated. The amended and restated documents reduced the interest rate to prime plus 6%, subject to a minimum of 9.25% and also not less than \$8,000 per month. The loan facility allows borrowing of 90% of eligible domestic receivables. In addition, the loan facility now allows borrowing of 90% of eligible foreign receivables to a maximum of \$500,000 and 25% of eligible inventory to a maximum of 20% of the amount available on receivables. The total credit line remains at \$3,500,000 and the tangible net worth covenant is \$2,000,000, measured quarterly. The Company agreed to pay an exit fee if it terminates the agreement more than 30 days prior to the one year anniversary of the amended and restated agreement. The amount of financing available to the Company under the agreement varies with the Company's eligible accounts receivable and inventory. At July 31, 2012, the Company had approximately \$1,518,000 of additional financing available to it under the terms of the agreement.

On May 11, 2011, the Company and certain investors entered into a securities purchase agreement pursuant to which the Company agreed to sell an aggregate of 1,775,000 shares of its common stock and warrants to purchase a total of 1,331,250 shares of its common stock to such investors. The aggregate net proceeds of such offering and sale, after deducting fees to the Placement Agent and other estimated offering expenses payable by the Company, was approximately \$2,998,000. The transaction closed on May 17, 2011.

On December 14, 2011, the Company entered into a Note and Security Agreement with Mr. Sheerr. The agreement provides for secured financing of up to \$2,000,000. The Company is obligated to pay monthly, interest equal to 10% per annum calculated on a 360 day year of the outstanding loan balance. Principal is payable in sixty equal monthly installments, beginning on July 15, 2012. The Company may prepay any or all sums due under this agreement at any time without penalty. On closing, the Company borrowed \$1,500,000 under the agreement and repaid in full the \$1,500,000 due under a previous Note. The Company has borrowed the full \$2,000,000 available under this agreement. Principal amounts due under this obligation are \$33,333 per month beginning on July 15, 2012. For the next fiscal year following April 30, 2012, the principal amount due under this obligation is \$333,333. In each of four fiscal periods from May 1, 2013 thru April 30, 2017, the principal amounts due under this obligation are \$400,000. In the fiscal period from May 1, 2017 thru June 30, 2017, the principal amount due on this obligation is \$66,667. Interest payable to Mr. Sheerr on July 31, 2012 was \$16,935. Interest expense recorded for Mr. Sheerr in the first quarter of fiscal 2013 was \$50,824.

(11) Securities Purchase Agreement

On May 11, 2011, the Company and certain investors entered into a securities purchase agreement in connection with a registered direct offering, pursuant to which the Company agreed to sell an aggregate of 1,775,000 shares of its common stock and warrants to purchase a total of 1,331,250 shares of its common stock to such investors for aggregate net proceeds, after deducting fees to the Placement Agent and other estimated offering expenses payable by the Company, of approximately \$2,998,000. The common stock and warrants were sold in fixed combinations, with each combination consisting of one share of common stock and 0.75 of one warrant, with each whole warrant exercisable for one share of common stock. The purchase price was \$1.88 per fixed combination. The warrants became exercisable six months and one day following the closing date of the Offering and will remain exercisable for five years thereafter at an exercise price of \$2.26 per share. The exercise price of the warrants is subject to adjustment in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. The exercisability of the warrants may be limited if, upon exercise, the holder or any of its affiliates would beneficially own more than 4.99% of the Company's common stock. After the one year anniversary of the initial exercise date of the warrants, the Company has the right to call the warrants for cancellation for \$.001 per share in the event that the volume weighted average price of the Company's common stock for 20 consecutive trading days exceeds \$4.52. On May 17, 2011, this transaction closed.

(12) Financial Information by Geographic Location

The Company currently operates in one business segment that 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, 2012 and 2011 by geographic region are as follows:

	Three months ended July 31, 2012	Three months ended July 31, 2011
United States	\$ 5,975,204	\$ 8,694,578
Europe	1,321,922	1,199,293
Other (principally Asia Pacific Region)	701,359	375,935
Consolidated	<u>\$ 7,998,485</u>	<u>\$ 10,269,806</u>

(13) Recently Adopted Accounting Guidance

There are no new pronouncements which affect the Company.

(14) Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist primarily of cash and cash equivalents, trade receivables and note 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. 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.

(15) Subsequent Events

On August 1, 2012, Shoreline borrowed an additional \$375,000 from the Company, aggregating total indebtedness pursuant to the Note of \$750,000. Outstanding indebtedness under the Note bears interest at Prime plus 3.0% (See Note 8).

On August 20, 2012, the Company executed an agreement to sell Advanced Micro Devices, Inc. ("AMD") licensed and branded versions of the Company's product, RAMDisk. The agreement provides for a three year term and may be terminated by either party on sixty (60) days written notice.

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 Corporation 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. Additionally, the Company manufactures a line of memory products for Intel and AMD motherboard based servers. The Company has developed and currently markets a line of high-performance storage caching products.

The Company's memory products are sold worldwide to OEMs, distributors, value-added resellers and end-users. The Company has one leased 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 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.

The Company has entered into two agreements, one with Shoreline Memory Inc. ("Shoreline") and the other with Advanced Micro Devices, Inc. ("AMD") for the purpose of expanding its customer base and product offerings. The Master Services Agreement with Shoreline provides for the Company to fulfill 50% of the orders Shoreline receives from its primary customer. In addition, Shoreline has the ability to borrow up to \$1,500,000 from the Company pursuant to a Convertible Senior Promissory Note ("Note"). The Note bears interest at Prime plus 3.0% and is convertible by the Company into equity ownership of Shoreline (See Note 8). The agreement with AMD provides for the Company to sell AMD licensed and branded versions of its RAMDisk software. Management is unable to determine the amount of revenue to be generated in fiscal 2013 from these agreements. However, these agreements, as well as other similar agreements, the Company believes will provide new revenue sources and expanded markets for the Company's products.

RAMDisk was acquired by Dataram in 2008. For the most part, the software was downloadable as freeware for personal use. Since the Company was able to track the number of downloads, it realized the popularity of the software and created a larger capacity version and commercial version for purchase. In fiscal 2012, approximately 2,580 were purchased for total revenue of \$41,000. For the quarter ended July 31, 2012, approximately 860 were purchased for total revenues of approximately \$22,000. The Company believes that the AMD branding of the product will increase its visibility and potential for increased revenue despite the free versions which will remain available.

Liquidity and Capital Resources

As of July 31, 2012, cash and cash equivalents amounted to approximately \$1,123,000 and working capital amounted to approximately \$5,304,000, reflecting a current ratio of 2.7. This compares to cash and cash equivalents of approximately \$3,275,000 and working capital of approximately \$6,690,000, reflecting a current ratio of 4.0 as of April 30, 2012.

During the three month period ended July 31, 2012, net cash used in operating activities totaled approximately \$2,432,000. Net loss in the period totaled approximately \$976,000 and included stock-based compensation expense of approximately \$99,000 and depreciation and amortization expense of approximately \$101,000. Inventories increased by approximately \$869,000. The increase in inventories was a management decision to take advantage of favorable buying opportunities. Trade receivable increased by approximately \$414,000. Other current assets increased by approximately \$385,000. Most of the increase in other current assets was the result of accounts payable deposits to DRAM manufacturers required to secure raw material. Accrued liabilities decreased by approximately \$120,000. Accounts payable increased by approximately \$155,000.

Net cash used in investing activities totaled approximately \$375,000 for the three month period ended July 31, 2012 and was the result of the issuance of a note receivable to Shoreline Memory described in Note 8 to the consolidated financial statements.

Net cash provided by financing activities totaled approximately \$655,000 for the three month period ended July 31, 2012 and consisted primarily of proceeds from borrowings under a revolving credit facility of approximately \$830,000, more fully described in Note 11 to the consolidated financial statements. The Company also purchased approximately \$142,000 of treasury stock. The Company also made the first principal payment of \$33,333 to Mr. Scheerr under the Note and Security agreement, more fully described in Note 4 to the Consolidated Financial Statements.

On July 27, 2010, the Company entered into an agreement with a financial institution for formula-based secured debt financing of up to \$5,000,000. Borrowings are secured by substantially all assets. On March 2, 2012, the agreement was amended to reduce the amount available under the credit facility to \$3,500,000 which, according to the Company's projections, will be sufficient to allow for maximum borrowing under the formulas provided for in the agreement. On May 17, 2012, the agreement was amended and restated. The amended and restated documents reduced the interest rate to prime plus 6%, subject to a minimum of 9.25% and also not less than \$8,000 per month. The loan facility allows borrowing of 90% of eligible domestic receivables. In addition, the loan facility now allows borrowing of 90% of eligible foreign receivables to a maximum of \$500,000 and 25% of eligible inventory to a maximum of 20% of the amount available on receivables. The total credit line remains at \$3,500,000 and the tangible net worth covenant is \$2,000,000, measured quarterly. The Company agreed to pay an exit fee if it terminates the agreement more than 30 days prior to the one year anniversary of the amended and restated agreement. The amount of financing available to the Company under the agreement varies with the Company's eligible accounts receivable and inventory. At July 31, 2012, the Company had approximately \$1,518,000 of additional financing available to it under the terms of the agreement.

On May 11, 2011, the Company and certain investors entered into a securities purchase agreement pursuant to which the Company agreed to sell an aggregate of 1,775,000 shares of its common stock and warrants to purchase a total of 1,331,250 shares of its common stock to such investors. The aggregate net proceeds of such offering and sale, after deducting fees to the Placement Agent and other estimated offering expenses payable by the Company, was approximately \$2,998,000. The transaction closed on May 17, 2011.

On December 14, 2011, the Company entered into a Note and Security Agreement with Mr. Sheerr. The agreement provides for secured financing of up to \$2,000,000. The Company is obligated to pay monthly, interest equal to 10% per annum calculated on a 360 day year of the outstanding loan balance. Principal is payable in sixty equal monthly installments, beginning on July 15, 2012. The Company may prepay any or all sums due under this agreement at any time without penalty. On closing, the Company borrowed \$1,500,000 under the agreement and repaid in full the \$1,500,000 due under a previous agreement that the Company entered into with Sheerr Memory on July 27, 2010. The Company has borrowed the full \$2,000,000 available under this agreement. Principal amounts due under this obligation are \$33,333 per month beginning on July 15, 2012. For the next fiscal year following April 30, 2012, the principal amount due under this obligation is \$333,333. In each of four fiscal periods from May 1, 2013 thru April 30, 2017, the principal amounts due under this obligation are \$400,000. In the fiscal period from May 1, 2017 thru June 30, 2017, the principal amount due on this obligation is \$66,667. Interest payable to Mr. Sheerr on July 31, 2012 was \$16,935.

On July 30, 2012, a Convertible Senior Promissory Note was executed by and between Shoreline and the Company whereby the Company will lend up to \$1,500,000 to Shoreline in exchange for interest payments at prime plus 3.0% and the right to convert the amount outstanding into common stock of Shoreline on or before its maturity date. Each time the Company advances money under the note, the Company is granted 1% of the common stock for every \$100,000 advanced up to a maximum of 15%. This is in addition to the 15% allowable under the conversion of the note and the warrant to acquire 30% of Shoreline common stock. The conversion is at the rate of 1% of the outstanding common stock for each \$100,000 converted up to a maximum of 15%. This note matures in three years and at that time Shoreline must repay the note or the Company must convert the note into common stock. The note is secured by all the assets of Shoreline and Shoreline Capital Management Ltd. ("Shoreline Capital") as guarantor. Also executed with the note was a warrant to purchase 30% of the outstanding common stock of Shoreline at the time of exercise and the warrant expires sixty days after the third anniversary. The warrant prescribes a formula to determine the price per share at the time of exercise. If all the amounts under the note are advanced and converted and the full warrant is exercised, the Company will own 60% of the outstanding common stock of Shoreline. The note was executed simultaneously with a Master Services Agreement which details the parameters under which the Company and Shoreline will fulfill orders from Shoreline's primary customer. On July 31, 2012 the Company advanced \$375,000 under the note and an additional \$375,000 on August 1, 2012. The purpose of the loan was to fund startup expenses and to prepay initial orders. The additional monies which may be borrowed are to continue to fund purchases for orders received. The note receivable is guaranteed by Shoreline Capital which has the same ownership as Shoreline. The company monitors the financial condition of Shoreline Capital on a quarterly basis and evaluates the collectability of the note receivable should the guarantee be needed to repay the loan.

Based on the cash provided by a securities purchase agreement entered into in May 2011 and described in Note 11, and the cash flows provided from a sale of the patents in March of 2012 along with the Company's ability to borrow under its current agreement with a financial institution, management has concluded that the Company's short-term liquidity needs have been satisfied.

Future minimum lease payments under non-cancellable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2012 are as follows:

Year ending April 30	
2013	\$ 352,000
2014	365,000
2015	374,000
2016	368,000
2017	114,000
Thereafter	—
Total minimum lease payments	<u>\$ 1,573,000</u>

The Company has no other material commitments.

Results of Operations

Revenues for the three month period ended July 31, 2011 were \$7,998,000 compared to revenues of \$10,270,000 for the comparable prior year period. The decrease in revenues from the prior year's first quarter was primarily a result of a 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. The average purchase price of DRAM chips that the Company uses in its products declined by approximately 43% year over year.

Revenues for the three months ended July 31, 2012 and 2011 by geographic region are as follows:

	Three months ended July 31, 2012	Three months ended July 31, 2011
United States	\$ 5,975,000	\$ 8,695,000
Europe	1,322,000	1,199,000
Other (principally Asia Pacific Region)	701,000	376,000
Consolidated	<u>\$ 7,998,000</u>	<u>\$ 10,270,000</u>

Cost of sales for the three month period ended July 31, 2012 was \$6,304,000 versus \$7,375,000 in the prior year comparable period. Cost of sales as a percentage of revenues for the fiscal quarters ended July 31, 2012 and 2011 were 79% and 72%, respectively. The increase in cost of sales as a percentage of revenues in the current fiscal year period was primarily the result of reduced average selling prices. 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 expense in fiscal 2013's first quarter was \$206,000 versus \$181,000 for the same respective prior year period.

Research and development expense in fiscal 2013's and 2012's first quarter was nil. In fiscal 2012's first quarter ended July 31, 2011, the Company capitalized \$633,000 of costs related to the XcelaSAN . During the third quarter of fiscal 2012, the XcelaSAN product was available for general release and generated approximately \$8,000 of revenue, which was significantly lower than expected. The Company capitalized approximately \$907,000 of XcelaSAN development cost in the first six months of fiscal 2012. The Company capitalized approximately \$1,480,000 of XcelaSAN research and development costs in fiscal 2011. The Company determined in fiscal 2012's third quarter based on the estimated future net realizable value for the expected periods of benefit that the carrying value of capitalized software development cost was impaired. As such, approximately \$2,387,000 of capitalized software development cost was written off.

Selling, general and administrative expense in fiscal 2012's first quarter totaled \$2,354,000 versus \$3,453,000 in the same prior year period, a decrease of approximately \$1,100,000. The decrease in this year's first quarter expense is primarily the result of decreased selling and marketing expenses related to the Company's XcelaSAN product totaling approximately \$1,000,000. The balance of the decrease in selling, general and administrative expense was related to the traditional memory business for employee related cost, from reduced head count.

Other income (expense), net for the first quarter of fiscal 2013 totaled expense of \$109,000 versus \$114,000 of expense for the same prior year period. Other expense in fiscal 2013's first quarter consisted primarily of interest expense of \$71,000 and \$38,000 of foreign currency transaction losses, primarily as a result of the EURO weakening relative to the US dollar. Prior year three month other expense totaled \$114,000 and consisted of \$103,000 of interest expense and \$11,000 of foreign currency transaction losses, primarily as a result of the EURO weakening relative to the US dollar.

Income tax expense for the first quarter of fiscal 2013 and 2012 were nil. The Company utilizes the asset and liability method of accounting for income taxes in accordance with the provisions of the Expenses – Income Taxes Topic of the FASB ASC. Under the asset and liability method, deferred income 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 income 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 income 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. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that the tax rate changes. The Company recognizes, in its consolidated financial statements, the impact of a tax position, if that position is more likely than not to be sustained on audit, based on technical merits of the position. There are no material unrecognized tax positions in the financial statements. As of July 31, 2012, the Company had Federal and state net operating loss (“NOL”) carry-forwards of approximately \$19.0 million and \$17.1 million, respectively. These can be used to offset future taxable income and expire between 2023 and 2032 for Federal tax purposes and 2016 and 2032 for state tax purposes. The Company’s NOL carry-forwards are a component of its deferred income tax assets, which are reported net of a full valuation allowance in the Company’s consolidated financial statements at July 31, 2012 and April 30, 2012.

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, 2012, 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. Estimated warranty costs are accrued by management upon product shipment based on an estimate of future warranty claims.

Research and Development - 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 had an uncertainty in receiving future economic benefits. Development costs of a computer software product to be sold, leased, or otherwise marketed are subject to capitalization beginning when a product’s technological feasibility has been established and ending when a product is available for general release to customers. Technological feasibility of a computer software product is established when all planning, designing, coding and testing activities that are necessary to establish that the product can be produced to meet its design specifications (including functions, features and technical performance requirements) are completed.

Long-Lived Assets - Long-lived assets, such as property 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 in 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 consolidated balance sheets 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.

Income Taxes - The Company utilizes the asset and liability method of accounting for income taxes in accordance with the provisions of the “Expenses – Income Taxes” Topic of the FASB ASC. Under the asset and liability method, deferred income 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 income 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 income 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. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized in earnings in the period that the tax rate changes. The Company recognizes, in its consolidated financial statements, the impact of a tax position, if that position is more likely than not to be sustained on audit, based on technical merits of the position. There are no material unrecognized tax positions in the financial statements.

Goodwill - Goodwill is tested for impairment on an annual basis and between annual tests if indicators of potential impairment exist, using a fair-value-based approach. The date of our annual impairment test is March 1.

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 income 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 income tax asset valuation allowance, the collectability of note receivable 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. At times, the Company's cash equivalents consist of overnight deposits with banks and money market accounts. 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% 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

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 quarter ended July 31, 2012 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

In connection with the consolidation of the Company's manufacturing facilities the Company's lease expired in Ivyland, PA. The landlord has filed suit against the Company claiming damages related to restoring the demised premises to its original condition and unpaid rent. The Company believes the amounts claimed for the restoration of the demised premises is without merit and plans to defend its position aggressively. The Company believes that any amounts paid in this matter will not have a material effect on the Company's financial condition.

Item 1A. RISK FACTORS.

No material 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. MINE SAFETY DISCLOSURES

No reportable event.

Item 5. OTHER INFORMATION.

No reportable event.

Item 6. EXHIBITS.

<u>Exhibit No</u>	<u>Description</u>
10.1	Dataram Corporation Convertible Senior Promissory Note
10.2	Dataram Corporation Security Agreement
31(a)	Rule 13a-14(a) Certification of John H. Freeman.
31(b)	Rule 13a-14(a) Certification of Marc P. Palker.
32(a)	Section 1350 Certification of John H. Freeman (furnished not filed).
32(b)	Section 1350 Certification of Marc P. Palker (furnished not filed).
101.INS(1)	XBRL Instance Document.
101.SCH(1)	XBRL Taxonomy Extension Schema Document
101.CAL(1)	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF(1)	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB(1)	XBRL Taxonomy Extension Label Linkbase Document
101.PRE(1)	XBRL Taxonomy Extension Presentation Linkbase Document

(1) To be filed by amendment pursuant to Section 405(a)(2)(ii) of Regulation S-T.

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

Date: September 14, 2012

By: /s/ MARC P. PALKER

Marc P. Palker

Chief Financial Officer

THIS CONVERTIBLE SENIOR PROMISSORY NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY OTHER APPLICABLE FEDERAL OR STATE SECURITIES LAWS, AND HAS BEEN ISSUED AND SOLD IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF SUCH LAWS, INCLUDING, WITHOUT LIMITATION, THE EXEMPTION CONTAINED IN SECTION 4(2) OF THE SECURITIES ACT. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED UNLESS (1) A REGISTRATION STATEMENT HAS BECOME AND IS THEN EFFECTIVE WITH RESPECT TO SUCH SECURITIES, (2) THIS NOTE IS TRANSFERRED PURSUANT TO RULE 144 PROMULGATED UNDER THE SECURITIES ACT (OR ANY SUCCESSOR RULE), OR (3) THE BORROWER (AS HEREINAFTER DEFINED) HAS RECEIVED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO IT, TO THE EFFECT THAT THE PROPOSED SALE OR TRANSFER OF SUCH SECURITIES IS EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT AND ALL OTHER APPLICABLE FEDERAL OR STATE SECURITIES LAWS.

CONVERTIBLE SENIOR PROMISSORY NOTE

July 30, 2012

FOR VALUE RECEIVED, and subject to the terms and conditions set forth herein, Shoreline Memory Inc., a corporation incorporated under the laws of the Province of Ontario, located at Suite 103, 145 King Street West, Toronto, Ontario M5W 1J8 (the "**Borrower**"), hereby unconditionally promises to pay to the order of Dataram Corporation, a New Jersey corporation located at 777 Alexander Road, Suite 100, Princeton, New Jersey 08540, or its permitted assigns (the "**Noteholder**", and together with the Borrower, the "**Parties**"), the aggregate amount disbursed by the Noteholder to the Borrower pursuant to **Section 2.2**, together with all accrued interest thereon, as provided in this Convertible Senior Promissory Note (the "**Note**").

The following is a statement of the rights of the Noteholder and the conditions to which the Note is subject:

1. Definitions. Capitalized terms used herein shall have the meanings set forth in this **Section 1**
-

"**Advance**" means each disbursement made by the Noteholder to the Borrower pursuant to **Section 2.2**

"**Affiliate**" means as to any Person, any other Person that, directly or indirectly through one or more intermediaries, is in control of, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" of a Person means the power, directly or indirectly, either to (a) vote ten percent (10%) or more of the securities having ordinary voting power for the election of directors (or persons performing similar functions) of such Person or (b) direct or cause the direction of the management and policies of such Person, whether by contract or otherwise.

"**Applicable Rate**" means the rate equal to the Prime Rate plus three percent (3%).

"**Anti-Terrorism Law**" means any Law related to money laundering or financing terrorism including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. 107-56) (the "**USA PATRIOT Act**"), the Currency and Foreign Transactions Reporting Act, 31 U.S.C. §§ 5311-5330 and 12 U.S.C. §§ 1818(s), 1820(b) and 1951-1959) (also known as the "**Bank Secrecy Act**"), the Trading With the Enemy Act (50 U.S.C. § 1 et seq., as amended) and Executive Order 13224 (effective September 24, 2001).

"**Blocked Person**" means any Person that (a) is publicly identified on the most current list of "Specially Designated Nationals and Blocked Persons" published by the Office of Foreign Assets Control of the US Department of the Treasury ("**OFAC**") or resides, is organized or chartered, or has a place of business in a country or territory subject to OFAC sanctions or embargo programs or (b) is publicly identified as prohibited from doing business with the United States under the International Emergency Economic Powers Act, the Trading With the Enemy Act, or any other Law.

"**Borrower**" has the meaning set forth in the introductory paragraph.

"**Borrowing Notice**" has the meaning set forth in **Section 2.2**

"**Business Day**" means a day other than a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"**Commitment Period**" means the period from the date hereof to the third anniversary of the date of this Note.

"**Common Stock**" means the Class B Common Shares of the Borrower, and any capital stock into which such Common Stock shall have been converted, exchanged or re-classified following the date hereof.

“**Common Stock Deemed Outstanding**” means at any given time, the sum of (a) the number of shares of Common Stock and Class A Common Shares actually outstanding, plus (b) the number of shares of Common Stock and Class A Common Shares issuable upon exercise of options actually outstanding at such time, plus (c) the number of shares of Common Stock and Class A Common Shares issuable upon conversion or exchange of convertible securities actually outstanding at such times (treating as actually outstanding any convertible securities issuable upon exercise of options actually outstanding at such time), in each case, regardless of whether the options or convertible securities are actually exercisable at such time; provided that Common Stock Deemed Outstanding shall not include any of the Common Stock issued or issuable under the Warrant Agreement.

“**Cost of Goods Sold**” means raw materials, direct labor and manufacturing costs.

"**Debt**" of the Borrower, means all (a) indebtedness for borrowed money; (b) obligations for the deferred purchase price of property or services, except trade payables arising in the ordinary course of business; (c) obligations evidenced by notes, bonds, debentures or other similar instruments; (d) obligations as lessee under capital leases; (e) obligations in respect of any interest rate swaps, currency exchange agreements, commodity swaps, caps, collar agreements or similar arrangements entered into by the Borrower providing for protection against fluctuations in interest rates, currency exchange rates or commodity prices or the exchange of nominal interest obligations, either generally or under specific contingencies; (f) obligations under acceptance facilities and letters of credit; (g) guaranties, endorsements (other than for collection or deposit in the ordinary course of business), and other contingent obligations to purchase, to provide funds for payment, to supply funds to invest in any Person, or otherwise to assure a creditor against loss, in each case, in respect of indebtedness set out in clauses (a) through (f) of a Person other than the Borrower; and (h) indebtedness set out in clauses (a) through (g) of any Person other than Borrower secured by any lien on any asset of the Borrower, whether or not such indebtedness has been assumed by the Borrower; provided that the Debt shall exclude Permitted Debt.

"**Default**" means any of the events specified in **Section 10** which constitutes an Event of Default or which, upon the giving of notice, the lapse of time, or both pursuant to **Section 10** would, unless cured or waived, become an Event of Default.

"**Default Rate**" means, at any time, the Applicable Rate plus four percent (4%) .

"**Event of Default**" has the meaning set forth in **Section 10**.

“**Family Member**” means, with respect to any Person, any parent, spouse, child, brother, sister, or any other relative with a relationship (by blood, marriage or adoption) and not more remote than first cousin to such Person.

"**GAAP**" means generally accepted accounting principles in the United States of America as in effect from time to time.

"**Governmental Authority**" means the government of any nation or any political subdivision thereof, whether at the national, state, territorial, provincial, municipal or any other level, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of, or pertaining to, government (including any supranational bodies such as the European Union or the European Central Bank).

"**Gross Margin**" means Net Sales minus the Cost of Goods Sold and royalty payments due under the Memory Trademark License Agreement dated June 21, 2012 between Borrower and Advanced Micro Devices, Inc.

"**Guarantees**" shall mean the Guarantee of amounts owing under this Note made by Shoreline Capital Management Ltd. and the Subsidiaries, collectively.

"**Interest Payment Date**" means the last day of each calendar quarter commencing on the first such date to occur after the execution of this Note.

"**Law**" as to any Person, means any law (including common law), statute, ordinance, treaty, rule, regulation, policy or requirement of any Governmental Authority and authoritative interpretations thereon, whether now or hereafter in effect, in each case, applicable to or binding on such Person or any of its properties or to which such Person or any of its properties is subject.

"**Lien**" means any mortgage, pledge, hypothecation, encumbrance, lien (statutory or other), charge or other security interest.

"**Loan**" has the meaning set forth in the introductory paragraph.

"**Master Services Agreement**" means the Master Services Agreement, dated as of the date hereof, by and between the Borrower and Noteholder, as the same may be amended, restated, supplemented or otherwise modified from time to time in accordance with the terms.

"**Material Adverse Effect**" means a material adverse effect on (a) the business, assets, properties, liabilities (actual or contingent), operations, condition (financial or otherwise) or prospects of the Borrower; (b) the validity or enforceability of the Note or Security Agreement; (c) the perfection or priority of any Lien purported to be created under the Security Agreement; (d) the rights or remedies of the Noteholder hereunder or under the Security Agreement; or (e) the Borrower's ability to perform any of its material payment obligations hereunder or under the Security Agreement.

"**Maturity Date**" means the earlier of (a) July 30, 2015 and (b) the date on which all amounts under this Note shall become due and payable pursuant to **Section 10**.

"**Net Sales**" means the amount of sales generated after the deduction of returns, allowances for damaged or missing goods and any other discounts allowed, which are reported on financial statements in accordance with GAAP.

"**Note**" has the meaning set forth in the introductory paragraph.

"**Noteholder**" has the meaning set forth in the introductory paragraph.

"**Order**" as to any Person, means any order, decree, judgment, writ, injunction, settlement agreement, requirement or determination of an arbitrator or a court or other Governmental Authority, in each case, applicable to or binding on such Person or any of its properties or to which such Person or any of its properties is subject.

"**Parties**" has the meaning set forth in the introductory paragraph.

"**Permitted Debt**" means Debt (a) existing or arising under this Note and any refinancing thereof; (b) existing as of the date of this Note and set out in Schedule I; (c) owed in respect of any netting services, overdrafts and related liabilities arising from treasury, depository and cash management services in connection with any automated clearinghouse transfers of funds; and (d) unsecured insurance premiums owing in the ordinary course of business.

"**Person**" means any individual, corporation, limited liability company, trust, joint venture, association, company, limited or general partnership, unincorporated organization, Governmental Authority or other entity.

"**Prime Rate**" means the rate of interest per annum publicly announced from time to time by Citibank, N.A. as its prime rate in effect at its principal office in New York City (which is not necessarily the best or lowest rate of interest charged by Citibank N.A. in connection with extensions of credit to borrowers).

"**Security Agreement**" means the Security Agreement, dated as of the date hereof, by and between the Borrower and Noteholder, as the same may be amended, restated, supplemented or otherwise modified from time to time in accordance with its terms.

"**Shareholders Agreement**" means the Shareholders Agreement dated as of the date hereof, by and between the Borrower and Noteholder, as the same may be modified, restated, supplemented or otherwise modified from time to time in accordance with its terms.

“**Stock Purchase Agreement**” means the Stock Purchased Agreement, dated as of the date hereof, entered into between the Borrower and the Noteholder.

“**Subsidiaries**” means with respect to any specified Person, any other Person whose voting securities are more than fifty percent (50%) owned, directly or indirectly, by such specified Person.

“**Transaction Documents**” means the Note, the Security Agreement, the Master Services Agreement, the Warrant Agreement, the Shareholders Agreement and the Stock Purchase Agreement collectively.

“**USA PATRIOT Act**” has the meaning set forth in the definition of Anti-Terrorism Law.

“**Warrant Agreement**” means the Warrant Agreement, dated as of the date hereof, issued by the Borrower to the Noteholder for the purchase of up to thirty percent (30%) of the ownership of the Noteholder in accordance with its terms.

2. Loan Disbursement Mechanics.

2.1 Commitment. Subject to **Section 2.2**

, the Noteholder shall make available to the Borrower two, but no more than four, Advances during the Commitment Period in an aggregate amount not to exceed the Loan.

2.2 Advances. On the date hereof, the Noteholder shall disburse to the Borrower an initial Advance equal to Three Hundred Seventy Five Thousand Dollars (\$375,000.00). The Noteholder shall disburse to the Borrower a second Advance equal to Three Hundred Seventy Five Thousand Dollars (\$375,000.00) on August 1, 2012. As a condition to the disbursement of any subsequent Advance, the Borrower shall, at least three Business Days prior to the requested disbursement date, deliver to the Noteholder a written notice (the “**Borrowing Notice**”) setting out (a) that no Default has occurred and is continuing; (b) the amount of the Advance, which amounts shall be no more than Two Hundred Fifty Thousand Dollars in (\$250,000.00) Dollars for the third advance and no more than Five Hundred Thousand Dollars (\$500,000.00) for the fourth advance, provided, however, that for the third and fourth Advances to be made hereunder, Noteholder has to achieve Gross Margin of Five Hundred Thousand Dollars (\$500,000.00) and One Million Dollars (\$1,000,000.00) respectively, pursuant to **Sections 3.1 and 3.3** of the Master Services Agreement; and (c) the date on which the Advance is to be disbursed. Each Borrowing Notice shall be deemed to repeat the Borrower's representations and warranties in **Section 8**

as of the date of such Borrowing Notice. Upon receipt of the Borrowing Notice, the Noteholder shall make available to the Borrower on the disbursement date the amount set out in the notice in immediately available funds.

3. Conversion. This Notes shall be convertible at Noteholder’s option as follows:

(a) At any time when any amounts remain owing under this Note, Noteholder may convert this Note into capital stock of Borrower by providing Borrower with notice that Noteholder wishes to convert this Note (the “**Conversion Notice**”). Upon the date on which the Conversion Notice is received by the Borrower (following proper delivery of such conversion Notice by Noteholder in accordance with **Section 14** of this Note), or such later date as set forth therein (The “**Conversion Date**”), this Note shall be converted into shares of Common Stock of Borrower (the “**Conversion Shares**”) at the rate of one percent (1%) of the Common Stock Deemed Outstanding for each One Hundred Thousand Dollars (\$100,000.00) outstanding under this Note. This right to convert may be exercised once only.

(b) Noteholder shall be deemed to be the holder of the Conversion Shares as of the Conversion Date. No provision of this **Section 3** shall limit any of Borrower’s obligations or Noteholder’s rights under this Note (including, without limitation, the restrictions on Prohibited Activity set forth herein). As soon as practicable after Noteholder surrenders this Note to Borrower for Conversion Shares, Borrower shall issue and deliver to Noteholder a certificate representing the Conversion Shares.

(c) If the Borrower shall, at any time or from time to time while this Note is outstanding, pay a dividend or make a distribution on its Common Stock in shares of Common Stock, subdivide its outstanding shares of Common Stock into a greater number of shares or combine its outstanding shares of Common Stock into a smaller number of shares or issue by reclassification of its outstanding shares of Common Stock any shares of its capital stock, then the number of Conversion Shares issuable upon exercise of this Note after the date upon which such change shall become effective, shall be adjusted by the Borrower so that the Noteholder exercising this Note shall be entitled to receive the number of shares of Common Stock or other capital stock which the Noteholder would have received if this Note had been exercised immediately prior to such event.

4. Final Payment Date; Optional Prepayments.

4.1 Final Payment Date. The aggregate unpaid principal amount of the Loan, all accrued and unpaid interest and all other amounts payable under this Note shall be due and payable on the Maturity Date.

4.2 Optional Prepayment. The Borrower may prepay the Loan in whole or in part at any time or from time to time without penalty or premium by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment; provided that the Borrower shall give the Noteholder not less than fifteen (15) days prior written notice of such prepayment. From time to time, the Borrower may request confirmation of the amounts owing under this Note and the Noteholder will confirm the amounts owing (providing reasonable detail) in writing within seven (7) days.

5. Security Agreement.

The Borrower's performance of its obligations hereunder is secured by a first priority security interest in the collateral specified in the Security Agreement.

6. Interest.

6.1 Interest Rate. Except as otherwise provided herein, the outstanding principal amount of all Advances made hereunder shall bear interest at the Applicable Rate from the date such Advance was made until the Loan is paid in full, whether at maturity, upon acceleration, by prepayment or otherwise.

6.2 Interest Payment Dates. Interest shall be payable quarterly in arrears to the Noteholder on each Interest Payment Date.

6.3 Default Interest. If any amount payable hereunder is not paid when due (without regard to any applicable grace periods), whether at stated maturity, by acceleration or otherwise, such overdue amount shall bear interest at the Default Rate from the date of such non-payment until such amount is paid in full.

6.4 Computation of Interest. All computations of interest shall be made on the basis of a year of 365 days, and the actual number of days elapsed. Interest shall accrue on each Advance on the day on which such Advance is made, and shall not accrue on any Advance for the day on which it is paid.

6.5 Interest Rate Limitation. If at any time and for any reason whatsoever, the interest rate payable on any Advance shall exceed the maximum rate of interest permitted to be charged by the Noteholder to the Borrower under applicable Law, such interest rate shall be reduced automatically to the maximum rate of interest permitted to be charged under applicable Law with that portion of each sum paid attributable to that portion of such interest rate that exceeds the maximum rate of interest permitted by applicable Law shall be deemed a voluntary prepayment of principal.

7. Payment Mechanics.

7.1 Manner of Payments. All payments of interest and principal shall be made in lawful money of the United States of America no later than 12:00 PM on the date on which such payment is due by wire transfer of immediately available funds to the Noteholder's account at a bank specified by the Noteholder in writing to the Borrower from time to time.

7.2 Application of Payments. All payments made hereunder shall be applied first to the payment of any fees or charges outstanding hereunder, second to accrued interest, and third to the payment of the principal amount outstanding under the Note. Fees and charges payable to the Noteholder shall not come due until fifteen (15) days following written notice of those fees and charges given by the Noteholder to the Borrower.

7.3 Business Day Convention. Whenever any payment to be made hereunder shall be due on a day that is not a Business Day, such payment shall be made on the next succeeding Business Day.

7.4 Evidence of Debt. The Noteholder is authorized to record on the grid attached hereto as Exhibit A each Advance made to the Borrower and each payment or prepayment thereof. The entries made by the Noteholder shall, to the extent permitted by applicable Law, be prima facie evidence of the existence and amounts of the obligations of the Borrower therein recorded; *provided, however, that* the failure of the Noteholder to record such payments or prepayments, or any inaccuracy therein, shall not in any manner affect the obligation of the Borrower to repay (with applicable interest) the Advances in accordance with the terms of this Note.

7.5 Rescission of Payments. If at any time any payment made by the Borrower under this Note is rescinded or must otherwise be restored or returned upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, the Borrower's obligation to make such payment shall be reinstated as though such payment had not been made.

8. Representations and Warranties. The Borrower hereby represents and warrants to the Noteholder on the date hereof as follows:

8.1 The Borrower and each Subsidiary thereof has all requisite power and authority to execute, deliver, and perform each of the Transaction Documents to which it is a party. All necessary proceedings of the Borrower and each Subsidiary have been duly taken to authorize the execution, delivery, and performance thereby of each of the Transaction Documents to which it is party. Each of the Transaction Documents has been duly authorized, executed, and delivered by the Borrower or a Subsidiary thereof, as applicable, constitutes the legal, valid, and binding obligation of the Borrower or a Subsidiary thereof, as applicable, and is enforceable as to the Borrower, such Subsidiary of the Borrower, or both, as applicable, in accordance with its respective terms. No consent of any party to any material contract, agreement, instrument, lease, license, arrangement, or understanding to which the Borrower or any Subsidiary thereof is a party, or to which its or any of its respective businesses, properties, or assets are subject, is required for the execution, delivery, or performance of any of the Transaction Documents, except such as shall have been received prior to the date hereof.

8.2 The Borrower has no Subsidiaries or affiliated corporation or owns any interest in any other enterprise (whether or not such enterprise is a corporation) other than Shoreline Memory Fulfillment, Inc., an Ontario corporation. The Borrower and each Subsidiary thereof has been duly organized and is validly existing as a corporation in good standing under the laws of its respective jurisdiction of incorporation with full power and authority (corporate and other) to own, lease and operate its respective properties and conduct its respective business as conducted on the date hereof. The Borrower and each Subsidiary thereof is duly qualified to do business as a foreign corporation and is in good standing in each jurisdiction in which the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified or be in good standing would not have a material adverse effect on the business, prospects, condition (financial or otherwise), and results of operations of the Borrower and the Subsidiaries thereof taken as a whole.

8.3 There is not pending any action, suit, claim, or proceeding against the Borrower or any Subsidiary thereof, before any court, government or governmental agency or body, domestic or foreign, having jurisdiction over the Borrower or any Subsidiary thereof or otherwise.

8.4 The authorized capital stock of the Borrower consists of an unlimited number of shares of Common Stock, of which 1,000 shares of Common Stock are outstanding all of which are owned by Trevor Folk and an unlimited number of shares of Class B common shares, none of which is outstanding (except for the Class B shares issued under the Stock Purchase Agreement). Each of such outstanding shares of Common Stock is duly and validly authorized, validly issued, fully paid, and nonassessable, has not been issued and is not owned or held in violation of any preemptive or similar right of stockholders. Each of the outstanding shares of capital stock of each Subsidiary of the Borrower is duly and validly authorized, validly issued, fully paid, and nonassessable, has not been issued and is not owned or held in violation of any preemptive or similar right of stockholders. The capital stock of each Subsidiary of the Borrower is owned beneficially and of record solely by the Borrower. At the date hereof, neither the Borrower nor any Subsidiary thereof has any options or warrants outstanding.

8.5 The Borrower, the Subsidiaries thereof, and their respective assets shall be free and clear of any pledge, lien, security interest, encumbrance, claim or equitable interest (“Lien”), and (ii) neither the Borrower nor any Subsidiaries thereof has any Debt, other than the Note.

8.6 There are no outstanding loans, advances or guarantees of indebtedness by the Borrower to, or for the benefit of, any of the officers, directors, or director-nominees of the Borrower or any of the members of the families of any of them.

8.7 If to the best of the knowledge of the Borrower, neither the Borrower or any Subsidiary thereof nor (to the knowledge of the Borrower) any other party to any material contract, agreement, instrument, lease, or license to which the Borrower or any Subsidiary is a party is now or expects in the future to be in violation or breach of, or in default with respect to complying with, any term thereof, and each such material contract, agreement, instrument, lease, or license is in full force and is (to the best of the knowledge of the Borrower in the case of third parties) the legal, valid, and binding obligation of the parties thereto and is enforceable as to them in accordance with its respective terms a list of which is set forth in Exhibit B. The stock ledgers and stock transfer books relating to all issuances and transfers of stock by the Borrower and each Subsidiary thereof and the minute book records of the Borrower and each Subsidiary thereof and all proceedings of the respective stockholders and the Board of Directors and committees thereof since its incorporation made available to the Noteholder are the original stock ledgers and stock transfer books and minute book records of the Borrower and the Subsidiaries thereof or exact copies thereof.

8.8 The execution and delivery by the Borrower of each of the Transaction Documents, the consummation of the transactions contemplated by the Transaction Documents, and compliance by the Borrower with any of the provisions of the Transaction Documents does not and will not conflict with, or result in any violation of, or default (with or without notice or lapse of time, or both) under or entitle any person or entity to receipt of notice or to a right of consent under, or give rise to a right of termination, cancellation or acceleration of any obligation or to loss of a benefit under, or to any increased, additional, accelerated or guaranteed rights or entitlement of any person or entity under, or result in the creation of any claim on the properties or assets of the Borrower or any Subsidiary thereof.

8.9 Upon issuance, the Conversion Shares will be duly authorized, validly issued, fully paid and non-assessable, and free of any liens or encumbrances, except for restrictions on transfers under applicable securities laws and any agreement to which Noteholder becomes a party.

8.10 The Advances made to Borrower under this Note shall be used only for the purposes included on the "Operating Budget" set forth on Schedule II attached to this Note.

9. Affirmative Covenants. Until all amounts outstanding in this Note have been paid in full, the Borrower shall:

9.1 The Borrower shall deliver to the Noteholder promptly after the Borrower shall obtain knowledge of such, written notice of all legal or arbitral proceedings, and of all proceedings by or before any governmental or regulatory authority or agency, and each material development in respect of such legal or other proceedings, affecting the Borrower and its affiliates, except proceedings which, if adversely determined, would not have a material adverse effect on the Borrower or any of its affiliates.

9.2 The Borrower shall deliver to the Noteholder promptly after the Borrower shall obtain knowledge of the occurrence of any Event of Default (as hereinafter defined) or any event which with notice or lapse of time or both would become an Event of Default (an Event of Default or such other event being a "Default"), a notice specifying that such notice is a "Notice of Default" and describing such Default in reasonable detail, and, in such Notice of Default or as soon thereafter as practicable, a description of the action the Borrower has taken or proposes to take with respect thereto.

9.3 The Borrower may borrow under a facility or facilities secured against the Borrower's inventory (and proceeds thereof) hereafter or previously acquired by the Borrower or against any receivables of the Borrower (and Proceeds thereof) arising out of the sale of any inventory so long as (i) such indebtedness is subordinate or pari passu to this Note and (ii) notwithstanding the Borrowing Notice requirement under **Section 2.2** hereunder, the Noteholder may, provided that the Noteholder has not failed to make any Advance when required under the terms of this Note, in its sole discretion, disburse the second and third Advances to the Borrower at any time. Subject to the foregoing, neither the Borrower nor any Subsidiary thereof shall (i) incur any indebtedness for money borrowed or services performed except for trade payables, or taxes, fees, levies or charges incurred in the ordinary course of business, leases or subleases or licenses granted or entered into in the ordinary course of business, or equipment leases or purchase financing incurred in the ordinary course of business, (ii) grant, or permit to be created any Lien on any assets of the Borrower or any Subsidiary thereof, or (iii) issue Common Stock, Class B common shares, or securities convertible into Common Stock or Class B common shares or declare or pay any dividends without the prior written consent of the Noteholder (that consent not to be unreasonably withheld or delayed). Notwithstanding the foregoing, the Borrower may borrow funds, without restriction, so long as those funds are used to pay all (and not less than all) amounts owing under this Note.

9.4 Neither the Borrower nor any Subsidiary thereof shall enter into, directly or indirectly, any transaction (including without limitation the purchase, lease, sale or exchange of properties of any kind or the rendering of any service) with any officer, director, employee, or stockholder, or any affiliate or family member of any officer, director, employee or stockholder of the Borrower or any Subsidiary thereof; provided that nothing herein shall prevent the payment of compensation to any officer, director or employee in the ordinary course.

9.5 Neither the Borrower nor any Subsidiaries will, directly or indirectly (i) purchase, redeem, retire or otherwise acquire for value any of its capital stock or other securities now or hereafter outstanding, return any capital to its stockholders, or distribute any of its assets to its stockholders or members (except as permitted in the Stock Purchase Agreement) or (ii) make any payment or declare any dividend on any of its capital stock or other securities (other than the payment of dividends by the Subsidiaries to the Borrower).

9.6 The Borrower and each Subsidiary thereof and will comply with all applicable laws, rules, regulations and orders, such compliance to include, without limitation, paying before they become delinquent all taxes, assessments and governmental charges imposed on it or upon its property, except to the extent contested in good faith.

9.7 Neither the Borrower nor any Subsidiary will change its respective line of business from that conducted by it as of the date of the Note.

9.8 Any Subsidiary created by the Borrower or any Subsidiary thereof shall be directly or indirectly owned solely by the Borrower.

10. Events of Default. If one or more of the following events ("Events of Default") shall have occurred and be continuing:

(a) the Borrower shall fail to pay any principal amount of, or interest on, this Note, within five business days from the date such payment is due;

(b) the Borrower or any Subsidiaries thereof shall fail to observe or perform any covenant contained in this Note or the Security Agreement and that failure is not remedied within fifteen (15) business days following written notice from the Noteholder.

(c) any representation, warranty, certification or statement made by the Borrower in any Transaction Documents shall prove to have been incorrect in any material respect when made (or deemed made);

(d) any party other than a Noteholder shall fail to observe or perform any covenant contained in any Guarantee to which it is a party and that failure is not remedied within fifteen (15) business days following written notice from the Noteholder;

(e) any representation, warranty, certification or statement made by any party other than a Noteholder in any Guarantee shall prove to have been incorrect in any material respect when made (or deemed made);

(f) a judgment or order for the payment of money in excess of Five Thousand Dollars (\$5,000.00) shall be rendered against the Borrower or any Subsidiary thereof and such judgment or order shall continue unsatisfied and unstayed for a period of fifteen (15) business days after the Noteholder becomes aware of the same (provided that so long as the Borrower or Subsidiary sets aside the amount of that judgment or order in its lawyer's trust account and diligently proceeds with an appeal of the judgment or order, that judgment or order shall be deemed to have been satisfied;

(g) the Borrower or any Subsidiary thereof shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(h) an involuntary case or other proceeding shall be commenced against the Borrower or any Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed for a period of sixty (60) days; or an order for relief shall be entered against the Borrower or any Subsidiary thereof, other than the Noteholder, as applicable, under the federal bankruptcy laws as now or hereafter in effect;

(i) the Borrower or any Subsidiary thereof consolidates or merges with or into another Person or sells all or substantially all of its assets to another Person without the consent of the Noteholder.

(j) the termination of the Master Services Agreement in accordance with **Section 7.2** therein.

Then, and in every such event, the Noteholder may, by written notice to the Borrower, declare the principal amount (together with accrued Interest thereon and all other amounts owing hereunder) to be, and the principal amount (together with accrued Interest thereon and all other amounts owing hereunder) shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; provided, that in the case of any of the Events of Default specified in clause (g) or (h) above, without any notice to the Borrower or any other act by the Noteholder, the principal amount (together with accrued Interest thereon and all other amounts owing hereunder) shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

11. Replacement of Note. Upon receipt by the Noteholder of evidence satisfactory to it of the loss, theft, destruction or mutilation of this Note, and (in case of loss, theft or destruction) of indemnity reasonably satisfactory to it, and upon reimbursement to the Noteholder of all reasonable expenses incidental thereto, and (if mutilated) upon surrender and cancellation of this Note, the Noteholder shall make and deliver to the Borrower a new note of like tenor in lieu of this Note. Any replacement note made and delivered in accordance with this **Section 10** shall be dated as of the date hereof.

12. Compliance With Anti-Terrorism Regulations

(a) (i) Violate any Anti-Terrorism Laws or (ii) engage in any transaction, investment, undertaking or activity that conceals the identity, source or destination of the proceeds from any category of prohibited offenses designated by the Organization for Economic Co-operation and Development's Financial Action Task Force on Money Laundering or (iii) or knowingly permit any of their respective Affiliates to violate these laws or engage in these actions.

(b) (i) Become a Blocked Person or (ii) knowingly permit any of their respective Affiliates to become a Blocked Person.

(c) Conduct any business or engage in making or receiving any contribution of goods, services or money to or for the benefit of any Blocked Person, (ii) deal in, or otherwise engage in any transaction related to, any property or interests in property blocked pursuant to any Anti-Terrorism Law, or (iii) engage in or conspire to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law or (iv) knowingly permit any of their respective Affiliates to do any of the foregoing.

13. Remedies. Upon the occurrence of any Event of Default and at any time thereafter during the continuance of such Event of Default, the Noteholder may at its option, by written notice to the Borrower (a) terminate its commitment to make any Advances hereunder; (b) declare the entire principal amount of this Note, together with all accrued interest thereon and all other amounts payable hereunder, immediately due and payable; and/or (c) exercise any or all of its rights, powers or remedies under the Security Agreement or applicable Law.

14. Miscellaneous.

14.1 Notices.

(a) All notices, requests or other communications required or permitted to be delivered hereunder shall be delivered in writing, in each case to the address specified below or to such other address as such Party may from time to time specify in writing in compliance with this provision:

- (i) If to the Borrower:
145 King Street West, Suite 103
Toronto, Ontario M5H 1J8
Attn: Trevor Folk
Telephone: _____, Facsimile: _____
E-mail: tfolk@shorelinememory.com
- (ii) If to the Noteholder:
777 Alexander Road, Suite 100
Princeton, New Jersey 08540
Attn: John Freeman, Chief Executive Officer
Telephone: 609-799-0071, Facsimile: 609-799-6734
E-mail: JFreeman@dataram.com

(b) Notices if (i) mailed by certified or registered mail or sent by hand or overnight courier service shall be deemed to have been given when received; (ii) sent by facsimile during the recipient's normal business hours shall be deemed to have been given when sent (and if sent after normal business hours shall be deemed to have been given at the opening of the recipient's business on the next business day); and (iii) sent by e-mail shall be deemed received upon the sender's receipt of an acknowledgment from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgment).

14.2 Expenses. The Borrower shall reimburse the Noteholder on demand for all reasonable and documented out-of-pocket costs, expenses and fees (including reasonable expenses and fees of its counsel) incurred by the Noteholder in connection with the enforcement of the Noteholder's rights under this Note and the Security Agreement.

14.3 Governing Law. Disputes arising in connection with these terms and conditions of sale will be governed by, and construed, enforced and interpreted in accordance with, the internal substantive laws of the State of New Jersey applicable to agreements to be made and to be performed solely within such state, without giving effect to any conflicts or choice of laws principles which otherwise might be applicable, and excluding the United Nations Convention on Contracts for the Sale of Goods. No action will lie for a violation, breach or other dispute of, or in any way arising out of or associated with this Agreement, unless such action is brought before the appropriate court within the jurisdiction of the courts of New Jersey, or the United States District Court for the District of New Jersey.

14.4 Submission to Jurisdiction.

(a) The Borrower hereby irrevocably and unconditionally (i) agrees that any legal action, suit or proceeding arising out of or relating to this Note or the Security Agreement may be brought in the courts of the State of New Jersey or of the United States of America for the District of New Jersey and (ii) submits to the exclusive jurisdiction of any such court in any such action, suit or proceeding. Final judgment against the Borrower in any action, suit or proceeding shall be conclusive and may be enforced in any other jurisdiction by suit on the judgment.

(b) Nothing in this **Section 14** shall affect the right of the Noteholder to (i) commence legal proceedings or otherwise sue the Borrower in any other court having jurisdiction over the Borrower or (ii) serve process upon the Borrower in any manner authorized by the laws of any such jurisdiction.

14.5 Venue. The Borrower irrevocably and unconditionally waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of venue of any action or proceeding arising out of or relating to this Note or the Security Agreement] in any court referred to in **Section 14** and the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

14.6 Waiver of Jury Trial. THE BORROWER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY RELATING TO THIS NOTE, THE SECURITY AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY.

14.7 Counterparts; Integration; Effectiveness. The Transaction Documents and any amendments, waivers, consents or supplements hereto and thereto may be executed in counterparts, each of which shall constitute an original, but all taken together shall constitute a single contract. The Transaction Documents constitute the entire contract between the Parties with respect to the subject matter hereof and supersede all previous agreements and understandings, oral or written, with respect thereto. Delivery of an executed counterpart of a signature page to this Note or the Security Agreement by facsimile or in electronic (i.e., "pdf" or "tif") format shall be effective as delivery of a manually executed counterpart of this Note or the Security Agreement, as applicable.

14.8 Successors and Assigns. This Note may be assigned or transferred by the Noteholder to any Person if **Section 3** of this Note has been effectively and irrevocably waived by the Noteholder, but otherwise this Note may not be assigned or transferred without the prior written consent of the Borrower. The Borrower may not assign or transfer this Note or any of its rights hereunder without the prior written consent of the Noteholder. This Note shall inure to the benefit of, and be binding upon, the Parties and their permitted assigns.

14.9 Waiver of Notice. The Borrower hereby waives demand for payment, presentment for payment, protest, notice of payment, notice of dishonor, notice of nonpayment, notice of acceleration of maturity and diligence in taking any action to collect sums owing hereunder.

14.10 USA PATRIOT Act. The Noteholder hereby notifies the Borrower that pursuant to the requirements of the USA PATRIOT Act, it is required to obtain, verify, and record information that identifies the Borrower, which information includes the name of the Borrower and other information that will allow the Noteholder to identify the Borrower in accordance with the US PATRIOT Act, and the Borrower agrees to provide such information from time to time to the Noteholder.

14.11 Interpretation. For purposes of this Note (a) the words "include," "includes" and "including" shall be deemed to be followed by the words "without limitation"; (b) the word "or" is not exclusive; and (c) the words "herein," "hereof," "hereby," "hereto" and "hereunder" refer to this Note as a whole. The definitions given for any defined terms in this Note shall apply equally to both the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. Unless the context otherwise requires, references herein: (x) to Schedules, Exhibits and Sections mean the Schedules, Exhibits and Sections of this Note; (y) to an agreement, instrument or other document means such agreement, instrument or other document as amended, supplemented and modified from time to time to the extent permitted by the provisions thereof; and (z) to a statute means such statute as amended from time to time and includes any successor legislation thereto and any regulations promulgated thereunder. This Note shall be construed without regard to any presumption or rule requiring construction or interpretation against the party drafting an instrument or causing any instrument to be drafted.

14.12 Amendments and Waivers. No term of this Note may be waived, modified or amended except by an instrument in writing signed by both of the parties hereto. Any waiver of the terms hereof shall be effective only in the specific instance and for the specific purpose given.

14.13 Headings. The headings of the various Sections and subsections herein are for reference only and shall not define, modify, expand or limit any of the terms or provisions hereof.

14.14 No Waiver; Cumulative Remedies. No failure to exercise and no delay in exercising on the part of the Noteholder, of any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by law.

14.15 Electronic Execution. The words "execution," "signed," "signature," and words of similar import in the Note shall be deemed to include electronic or digital signatures or the keeping of records in electronic form, each of which shall be of the same effect, validity and enforceability as manually executed signatures or a paper-based recordkeeping system, as the case may be, to the extent and as provided for under applicable law, including the Electronic Signatures in Global and National Commerce Act of 2000 (15 USC § 7001 et seq.), or any other similar state laws based on the Uniform Electronic Transactions Act.

14.16 Severability. If any term or provision of this Note or the Security Agreement is invalid, illegal or unenforceable in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other term or provision of this Note or the Security Agreement or invalidate or render unenforceable such term or provision in any other jurisdiction. Upon such determination that any term or other provision is invalid, illegal or unenforceable, the parties hereto shall negotiate in good faith to modify this Note so as to effect the original intent of the parties as closely as possible in a mutually acceptable manner in order that the transactions contemplated hereby be consummated as originally contemplated to the greatest extent possible.

14.17 Currency. All dollar amounts referred to in this Note are references to United States Dollars.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Borrower has executed this Note as of July 30 , 2012.

SHORELINE MEMORY INC.

By /s/ Trevor Folk

Name: Trevor Folk

Title: President

By its acceptance of this Note, the Noteholder
acknowledges and agrees to be bound by the provisions of
this Note:

DATARAM CORPORATION

By /s/ John H. Freeman

Name: John H. Freeman

Title: President and CEO

GUARANTY

FOR VALUE RECEIVED, the undersigned hereby unconditionally guarantees the payment of the foregoing Convertible Senior Promissory Note ("Note") and all extensions or renewals thereof, and all expenses (including reasonable attorney's fees and legal expenses) incurred in the collection thereof, the enforcement of rights under any security therefor and the enforcement hereof, and waives presentment, demand, notice of dishonor, protest, and all other notices whatsoever, and agrees that the holder of said Note may from time to time extend or renew said Note for any period (whether or not longer than the original period of said Note) and grant any releases, compromises or indulgences with respect to said Note or any extension or renewal thereof or any security therefor or to any party liable thereunder or hereunder, all without notice to or consent of the undersigned and without affecting the liability of the undersigned hereunder.

SHORELINE CAPITAL MANAGEMENT LTD.

By: /s/ Trevor Folk

Name: Trevor Folk

Title: President

SECURITY AGREEMENT

This SECURITY AGREEMENT, dated as of July 30, 2012 (as amended, supplemented or otherwise modified from time to time in accordance with the provisions hereof, this "**Agreement**"), made by and among Shoreline Memory Inc., an Ontario corporation ("**Shoreline**"), and Shoreline Capital Management Ltd., an Ontario corporation ("**Capital**"), (Capital together with Shoreline, collectively the "**Grantor**") in favor of Dataram Corporation, a New Jersey corporation (the "**Secured Party**"), under that certain Convertible Senior Promissory Note (the "**Senior Note**") dated as of the date hereof. Capitalized terms used but not otherwise defined herein shall have the meanings assigned to such terms in the Senior Note.

WHEREAS, pursuant to the Senior Note, the Secured Party has made Loans and other Advances to the Grantor (the "**Loans**"), evidenced by the Senior Note (as amended, supplemented or otherwise modified from time to time) made by the Grantor and payable to the order of the Secured Party; and

WHEREAS, it is a condition to the obligations of the Secured Party to make the Loans under the Senior Note that the Grantor (a) grant a first priority security interest in the Collateral (as defined below) in favor of the Secured Party, to secure the payment and performance of all of the Secured Obligations and (b) execute and deliver this Agreement;

NOW, THEREFORE, in consideration of the mutual covenants, terms and conditions set forth herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Definitions.

(a) Unless otherwise specified herein, all references to Sections and Schedules herein are to Sections of this Agreement.

(b) Unless otherwise defined herein, terms used herein that are defined in the PPSA shall have the meanings assigned to them in the PPSA.

(c) For purposes of this Agreement, the following terms shall have the following meanings:

"**Collateral**" has the meaning set forth in **Section 2**

"**Event of Default**" has the meaning set forth in the Senior Note.

"First Priority" means, with respect to any lien and security interest purported to be created in any Collateral pursuant to this Agreement, such lien and security interest is the most senior lien and security interest to which such Collateral is subject, excluding Permitted Liens (which Permitted Liens may rank pari passu to the First Priority lien and security interest).

"Permitted Lien" means any one or more of the following with respect to the Collateral:

- (a) liens for taxes, assessments or governmental charges or levies not at the time due and delinquent or the validity of which are being contested in good faith by proper legal proceedings;
- (b) the lien of any judgment rendered or claim filed which is being contested in good faith by proper legal proceedings;
- (c) undetermined or inchoate liens and charges incidental to construction or current operations which have not at such time been filed pursuant to law or which relate to obligations not yet due or delinquent;
- (d) the lien or security interest resulting from the deposit of cash or securities in connection with contracts, tenders or expropriation proceedings, or to secure workers' compensation, surety or appeal bonds, costs of litigation when required by law and public and statutory obligations, liens or claims incidental to construction, mechanics', warehouseman's, carriers' and other similar liens;
- (e) security given to a public utility or any municipality or governmental or other public authority when required by such utility or other authority in connection with the operations of the Grantor, all in the ordinary course of its business;
- (f) the lien or security interest on any inventory (and Proceeds thereof) hereafter or previously acquired by the Grantor granted to secure the indebtedness of the Grantor for the acquisition price of such inventory (including any costs of delivery and installation), or the repayment of moneys borrowed to pay such acquisition price, or to secure any extension, renewal or replacement of such indebtedness;
- (g) the lien or security interest on any receivables of the Grantor (and Proceeds thereof) arising out of the sale of any inventory; or
- (h) any other lien or security interest approved in writing by the Secured Party.

"PPSA" means the Personal Property Security Act (Ontario) together with any regulations thereunder, in each case as in effect from time to time. References to sections of the PPSA shall be construed to also refer to any successor sections.

"Perfection Certificate" has the meaning set forth in *Section 7*.

"Proceeds" means "proceeds" as such term is defined in the PPSA and, in any event, shall include, without limitation, all dividends or other income from the Collateral, collections thereon or distributions with respect thereto.

"Secured Obligations" has the meaning set forth in *Section 3*

"Transaction Documents" means this Agreement, the Senior Note, Master Services Agreement, Stock Purchase Agreement, Shareholders Agreement, Warrant Agreement and all other documents and agreements executed in connection with the transactions contemplated thereunder.

2. Grant of Security Interest. The Grantor hereby pledges and grants to the Secured Party, for its benefit and hereby creates a continuing First Priority lien and security interest in favor of the Secured Party, for its benefit in and to all of its right, title and interest in and to all property and rights of the Grantor, wherever located, whether now existing or hereafter from time to time arising or acquired (collectively, the "**Collateral**"), including but not limited to the following:

- (a) all of its Accounts;
- (b) all Real Property and Fixtures;
- (c) all of its Commercial Tort Claims;
- (d) all of its Deposit Accounts;
- (e) all of its General Intangibles and all recourse, indemnification, repurchase and other rights of the Grantor thereunder);
- (f) all Goods, including, without limitation, Inventory and Equipment;
- (g) all of its Investment Property (including all of its Securities and Securities Accounts);
- (h) all of letters of credit, Letter-of-Credit Rights, Instruments, Promissory Notes and Chattel Paper (including electronic chattel paper and tangible Chattel Paper);

- (i) all contracts, contract rights, Chattel Paper, Instruments and Documents of the Grantor;
- (j) all rights, claims or choses in action of the Grantor;
- (k) all of the Grantor's interest in insurance policies and bonds held by the Grantor (whether singly or jointly);
- (l) all money or other assets of the Grantor that now or hereafter come into the possession, custody, or control of the Secured Parties;
- (m) all of the Grantor's books and records (including customer lists, credit files, computer print outs, and other computer materials and records of the Grantor) pertaining to the Collateral;
- (n) all accessions to, substitutions for and all replacements, products and cash and non-cash proceeds of (a) through (m) above, including proceeds of and unearned premiums with respect to insurance policies insuring any of the Collateral; and
- (o) the Proceeds and products, whether tangible or intangible, of any of the foregoing, including proceeds of insurance covering any or all of the foregoing, and any and all Accounts, books and records, Deposit Accounts, Equipment, Fixtures, General Intangibles, Inventory, Investment Property, Negotiable Collateral, Supporting Obligations, money, or other real or personal, tangible or intangible Property resulting from the sale, exchange, collection, or other disposition of any of the foregoing, or any portion thereof or interest therein, and the proceeds thereof; together with all assets and interests in assets and proceeds thereof now owned or hereafter acquired by the Secured Parties in or upon which a lien is granted under any of the Transaction Documents.

3 . Secured Obligations. The Secured Parties' security interest in the Collateral shall secure the payment and performance of the following (all such obligations, liabilities, sums and expenses set forth in this **Section 3** being herein collectively called the "**Secured Obligations**"):

- (a) the obligations of the Grantor from time to time arising under the Senior Note, this Agreement or otherwise with respect to the due and punctual payment of (i) the principal of and premium, if any, and interest on the Loans (including interest accruing during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise and (ii) all other monetary obligations, including fees, costs, attorneys' fees and disbursements, reimbursement obligations, expenses and indemnities, whether primary, secondary, direct, contingent, fixed or otherwise (including monetary obligations incurred during the pendency of any bankruptcy, insolvency, receivership or other similar proceeding, regardless of whether allowed or allowable in such proceeding), of the Grantor under the Senior Note or this Agreement; and

(b) all other agreements, duties, indebtedness, obligations and liabilities of any kind of the Grantor under the Senior Note or this Agreement, in each case whether now existing or hereafter arising, whether evidenced by a note or other writing, whether allowed in any bankruptcy, insolvency, receivership or other similar proceeding, whether arising from an extension of credit, issuance of a letter of credit, acceptance, loan, guaranty, indemnification or otherwise, and whether direct or indirect, absolute or contingent, due or to become due, primary or secondary, or joint or several.

4. Permitted Financing: Notwithstanding any other provision of this agreement or the Senior Note, the Senior Note and this agreement and the lien and security interest created under this agreement shall not prevent the Grantor from granting a Permitted Lien described in paragraphs (f) or (g) of the definition of Permitted Lien (a “**Permitted Lender’s Lien**”) or from borrowing under any facility secured by that Permitted Lender’s Lien, provided that Grantor obtains the prior written consent of the Secured Party which consent shall not be unreasonably withheld. Any such Permitted Lien, whether given before or after the execution and delivery of this agreement, shall rank pari passu or subordinate to the lien and security interest created under this agreement. If requested by any holder of a Permitted Lender’s Lien, the Secured Party agrees to give written confirmation that the lien and security interest created under this agreement is pari passu to such Permitted Lender’s Lien, in such form as may reasonably be requested by the holder of the Permitted Lender’s Lien.

5. Perfection of Security Interest and Further Assurances .

(a) The Grantor shall, from time to time, as may be required by the Secured Parties with respect to all Collateral, take all actions as may be requested by the Purchaser to perfect the security interest of the Secured Party in the Collateral, including, without limitation, with respect to all Collateral over which control may be obtained within the meaning of the PPSA, section 201 of the federal Electronic Signatures in Global and National Commerce Act and, as the case may be, section 16 of the Uniform Electronic Transactions Act, as applicable. The Grantor shall take all actions as may be requested from time to time by the Secured Party so that control of such Collateral is obtained and at all times held by the Secured Party, for its benefit. All of the foregoing shall be at the sole cost and expense of the Grantor.

(b) The Grantor hereby irrevocably authorizes the Secured Party at any time and from time to time to file in any relevant jurisdiction any financing statements and amendments thereto that contain the information required by the PPSA of each applicable jurisdiction for the filing of any financing statement or amendment relating to the Collateral, including any financing or continuation statements or other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the security interest granted by the Grantor hereunder, without the signature of the Grantor where permitted by law, including the filing of a financing statement describing the Collateral as all assets now owned or hereafter acquired by the Grantor, or words of similar effect. The Grantor agrees to provide all information required by the Secured Party pursuant to this Section promptly to the Secured Party.

(c) The Grantor hereby further authorizes the Secured Party to file with the United States Patent and Trademark Office and the United States Copyright Office (and any successor office and any similar office in any state of the United States or in any other country) this Agreement and other documents for the purpose of perfecting, confirming, continuing, enforcing or protecting the security interest granted by the Grantor hereunder, without the signature of the Grantor where permitted by law.

(d) Subject to the requirements of anyone who holds a Permitted Lien as those requirements relate to the security granted under the Permitted Lien, if the Grantor shall at any time hold or acquire any certificated securities, Promissory Notes, tangible Chattel Paper, negotiable documents or warehouse receipts relating to the Collateral, the Grantor shall indorse, assign and deliver the same to the Secured Party, accompanied by such instruments of transfer or assignment duly executed in blank as the Secured Party may from time to time specify.

(e) Subject to the requirements of anyone who holds a Permitted Lien as those requirements relate to the security granted under the Permitted Lien, if any Collateral is at any time in the possession of a bailee, the Grantor shall promptly notify the Secured Party thereof and, at its request and option, shall promptly obtain an acknowledgment from the bailee, in form and substance satisfactory to the Secured Party, that the bailee holds such Collateral for the benefit of the Secured Party and the bailee agrees to comply, without further consent of the Grantor, at any time with instructions of the Secured Party as to such Collateral.

(f) The Grantor agrees that at any time and from time to time, at the expense of the Grantor, the Grantor will promptly execute and deliver all further instruments and documents, obtain such agreements from third parties, and take all further action, that may be necessary or desirable, or that the Secured Party may reasonably request, in order to perfect and protect any security interest granted hereby or to enable the Secured Party to exercise and enforce its rights and remedies hereunder, for its benefit, or under any other agreement with respect to any Collateral.

6 . **Permitted Dispositions:** Until an Event of Default has occurred and the lien and security interest created under this agreement shall have become enforceable, the Grantor shall be entitled to:

(a) collect and, where necessary, enforce the collection of all amounts due or to become due to the Debtor under any account; and

(b) sell, lease, license, consign or otherwise dispose of inventory or of any obsolete, worn out, damaged or otherwise unsuitable equipment forming part of the Collateral, in the ordinary course of the Grantor's business and for the purpose of carrying on the same.

7. Representations and Warranties. The Grantor represents and warrants as follows:

(a) It has previously delivered to the Purchaser a certificate signed by the Grantor and entitled "Perfection Certificate" ("**Perfection Certificate**"), and that: (i) the Grantor's exact legal name is that indicated on the Perfection Certificate and on the signature page hereof, (ii) the Grantor is an organization of the type, and is organized in the jurisdiction, set forth in the Perfection Certificate, (iii) the Perfection Certificate accurately sets forth the Grantor's organizational identification number (or accurately states that the Grantor has none), the Grantor's place of business (or, if more than one, its chief executive office), and its mailing address, (iv) all other information set forth on the Perfection Certificate relating to the Grantor is accurate and complete and (v) there has been no change in any such information since the date on which the Perfection Certificate was signed by the Grantor.

(b) All information set forth on the Perfection Certificate relating to the Collateral is accurate and complete and there has been no change in any such information since the date on which the Perfection Certificate was signed by the Grantor.

(c) The Grantor has at all times operated its business in compliance with all applicable provisions of the federal Fair Labor Standards Act, as amended, and with all applicable provisions of federal, state and local statutes and ordinances dealing with the control, shipment, storage or disposal of hazardous materials or substances.

(d) At the time the Collateral becomes subject to the lien and security interest created by this Agreement, the Grantor will be the sole, direct, legal and beneficial owner thereof, free and clear of any lien, security interest, encumbrance, claim, option or right of others except for the security interest created by this Agreement or any Permitted Lien.

(e) The pledge of the Collateral pursuant to this Agreement creates a valid and perfected First Priority security interest in the Collateral, securing the payment and performance when due of the Secured Obligations.

(f) It has full power, authority and legal right to borrow the Loans and pledge the Collateral pursuant to this Agreement.

(g) Each of this Agreement and the Senior Note has been duly authorized, executed and delivered by the Grantor and constitutes a legal, valid and binding obligation of the Grantor enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting creditors' rights generally and subject to equitable principles (regardless of whether enforcement is sought in equity or at law).

(h) No authorization, approval, or other action by, and no notice to or filing with, any governmental authority or regulatory body is required for the borrowing of the Loans and the pledge by the Grantor of the Collateral pursuant to this Agreement or for the execution and delivery of the Senior Note and this Agreement by the Grantor or the performance by the Grantor of its obligations thereunder.

(i) The execution and delivery of the Senior Note and this Agreement by the Grantor and the performance by the Grantor of its obligations thereunder, will not violate any provision of any applicable law or regulation or any order, judgment, writ, award or decree of any court, arbitrator or governmental authority, domestic or foreign, applicable to the Grantor or any of its property, or the organizational or governing documents of the Grantor or any agreement or instrument to which the Grantor is party or by which it or its property is bound.

(j) The Grantor has taken all action required on its part for control (as defined in the PPSA, section 201 of the federal Electronic Signatures in Global and National Commerce Act and, as the case may be, section 16 of the Uniform Electronic Transactions Act, as applicable) to have been obtained by the Secured Party, for its benefit, over all Collateral with respect to which such control may be obtained pursuant to the PPSA. No person other than the Secured Party has control or possession of all or any part of the Collateral.

8. Voting, Distributions and Receivables.

(a) The Secured Party agrees that unless an Event of Default shall have occurred and be continuing, the Grantor may, to the extent the Grantor has such right as a holder of the Collateral consisting of securities, other Equity Interests or indebtedness owed by any obligor, vote and give consents, ratifications and waivers with respect thereto, except to the extent that, in the Secured Party's reasonable judgment, any such vote, consent, ratification or waiver could detract from the value thereof as Collateral or which could be inconsistent with or result in any violation of any provision of the Senior Note or this Agreement, and from time to time, upon request from the Grantor, the Secured Party shall deliver to the Grantor suitable proxies so that the Grantor may cast such votes, consents, ratifications and waivers.

(b) The Secured Party agrees that the Grantor may, unless an Event of Default shall have occurred and be continuing, receive and retain all dividends and other distributions with respect to the Collateral consisting of securities, other Equity Interests or indebtedness owed by any obligor.

(c) If any Event of Default shall have occurred and be continuing, the Secured Party may, or at its request, the Grantor shall, notify account debtors and other persons obligated on any of the Collateral of the security interest of the Secured Party in any account, chattel paper, general intangible, instrument or other Collateral and that payment thereof is to be made directly to the Secured Party.

9. Covenants. The Grantor covenants as follows:

(a) The Grantor will not, without providing at least thirty (30) days' prior written notice to the Secured Party, change its legal name, identity, type of organization, jurisdiction of organization, corporate structure, location of its chief executive office or its principal place of business or its organizational identification number. The Grantor will, prior to any change described in the preceding sentence, take all actions reasonably requested by the Secured Party to maintain the perfection and priority of the Secured Parties' security interest in the Collateral.

(b) The Collateral, to the extent not delivered to the Secured Party pursuant to **Section 5**, will be kept at those locations listed on the Perfection Certificate and the Grantor will not remove the Collateral from such locations without providing at least thirty (30) days' prior written notice to the Purchaser. The Grantor will, prior to any change described in the preceding sentence, take all actions reasonably required by the Secured Party to maintain the perfection and priority of the Secured Party's security interest in the Collateral.

(c) The Grantor shall, at its own cost and expense, defend title to the Collateral and the First Priority lien and security interest of the Secured Party therein against the claim of any person claiming against or through the Grantor and shall maintain and preserve such perfected First Priority security interest for so long as this Agreement shall remain in effect.

(d) The Grantor will not sell, offer to sell, dispose of, convey, assign or otherwise transfer, grant any option with respect to, restrict, or grant, create, permit or suffer to exist any mortgage, pledge, lien, security interest, option, right of first offer, encumbrance or other restriction or limitation of any nature whatsoever on, any of the Collateral or any interest therein, except as expressly provided for in the Senior Note or this agreement or with the prior written consent of the Secured Party.

(e) The Grantor will keep the Collateral in good order and repair and will not use the same in violation of law or any policy of insurance thereon. The Grantor will permit the Secured Party, or its designee, to inspect the Collateral at any reasonable time, wherever located.

(f) The Grantor will pay promptly when due all taxes, assessments, governmental charges, and levies upon the Collateral or incurred in connection with the use or operation of the Collateral or incurred in connection with this Agreement.

(g) Except for direct shipments to the end user, Inventory shall be maintained at locations designated by the Secured Party. Inventory for direct shipments to the end user may be maintained at locations designated by the Grantor, and if required, at locations under the control of the Secured Party.

10 . Secured Party Appointed Attorney-in-Fact . The Grantor hereby appoints the Secured Party the Grantor's attorney-in-fact, with full authority in the place and stead of the Grantor and in the name of the Grantor or otherwise, from time to time during the continuance of an Event of Default in the Secured Party's discretion to take any action and to execute any instrument which the Secured Party may deem necessary or advisable to accomplish the purposes of this Agreement (but the Secured Party shall not be obligated to and shall have no liability to the Grantor or any third party for failure to do so or take action). This appointment, being coupled with an interest, shall be irrevocable. The Grantor hereby ratifies all that said attorneys shall lawfully do or cause to be done by virtue hereof.

11 . Secured Party May Perform . If the Grantor fails to perform any obligation contained in this Agreement, the Secured Party may itself perform, or cause performance of, such obligation, and the expenses of the Secured Party incurred in connection therewith shall be payable by the Grantor; *provided that* the Secured Party shall not be required to perform or discharge any obligation of the Grantor.

12. Reasonable Care. The Secured Party shall have no duty with respect to the care and preservation of the Collateral beyond the exercise of reasonable care. The Secured Party shall be deemed to have exercised reasonable care in the custody and preservation of the Collateral in its possession if the Collateral is accorded treatment substantially equal to that which the Secured Party accords its own property, it being understood that the Secured Party shall not have any responsibility for (a) ascertaining or taking action with respect to any claims, the nature or sufficiency of any payment or performance by any party under or pursuant to any agreement relating to the Collateral or other matters relative to any Collateral, whether or not the Purchaser has or is deemed to have knowledge of such matters, or (b) taking any necessary steps to preserve rights against any parties with respect to any Collateral. Nothing set forth in this Agreement, nor the exercise by the Secured Party of any of the rights and remedies hereunder, shall relieve the Grantor from the performance of any obligation on the Grantor's part to be performed or observed in respect of any of the Collateral.

13. Remedies Upon Default. If any Event of Default shall have occurred and be continuing:

(a) The Secured Party, for its benefit, without any other notice to or demand upon the Grantor, may assert all rights and remedies of a secured party under the PPSA or other applicable law, including, without limitation, the right to take possession of, hold, collect, sell, lease, deliver, grant options to purchase or otherwise retain, liquidate or dispose of all or any portion of the Collateral. If notice prior to disposition of the Collateral or any portion thereof is necessary under applicable law, written notice mailed to the Grantor at its notice address as provided in **Section 17** hereof ten (10) days prior to the date of such disposition shall constitute reasonable notice, but notice given in any other reasonable manner shall be sufficient. So long as the sale of the Collateral is made in a commercially reasonable manner, the Secured Party may sell such Collateral on such terms and to such purchaser(s) as the Secured Party in its absolute discretion may choose, without assuming any credit risk and without any obligation to advertise or give notice of any kind other than that necessary under applicable law. Without precluding any other methods of sale, the sale of the Collateral or any portion thereof shall have been made in a commercially reasonable manner if conducted in conformity with reasonable commercial practices of creditors disposing of similar property. At any sale of the Collateral, if permitted by applicable law, the Secured Party may be the purchaser, licensee, assignee or recipient of the Collateral or any part thereof and shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold, assigned or licensed at such sale, to use and apply any of the Secured Obligations as a credit on account of the purchase price of the Collateral or any part thereof payable at such sale. To the extent permitted by applicable law, the Grantor waives all claims, damages and demands it may acquire against the Secured Party arising out of the exercise by it or them of any rights hereunder. The Grantor hereby waives and releases to the fullest extent permitted by law any right or equity of redemption with respect to the Collateral, whether before or after sale hereunder, and all rights, if any, of marshalling the Collateral and any other security for the Secured Obligations or otherwise. At any such sale, unless prohibited by applicable law, the Secured Party or any custodian may bid for and purchase all or any part of the Collateral so sold free from any such right or equity of redemption. Neither of the Secured Party nor any custodian shall be liable for failure to collect or realize upon any or all of the Collateral or for any delay in so doing, nor shall it be under any obligation to take any action whatsoever with regard thereto.

(b) All rights of the Grantor to (i) exercise the voting and other consensual rights it would otherwise be entitled to exercise pursuant to **Section 8(a)** and (ii) receive the dividends and other distributions which it would otherwise be entitled to receive and retain pursuant to **Section 8(b)**, shall immediately cease, and all such rights shall thereupon become vested in the Secured Party, for its benefit, which shall have the sole right to exercise such voting and other consensual rights and receive and hold such dividends and other distributions as Collateral.

(c) Any cash held by the Secured Party as Collateral and all cash Proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral shall be applied in whole or in part by the Secured Party to the payment of expenses incurred by the Secured Party in connection with the foregoing, including reasonable attorneys' fees, and the balance of such proceeds shall be applied or set off against all or any part of the Secured Obligations in such order as the Secured Party shall elect. Any surplus of such cash or cash Proceeds held by the Secured Party and remaining after payment in full of all the Secured Obligations shall be paid over to the Grantor or to whomsoever may be lawfully entitled to receive such surplus. The Grantor shall remain liable for any deficiency if such cash and the cash Proceeds of any sale or other realization of the Collateral are insufficient to pay the Secured Obligations and the fees and other charges of any attorneys employed by the Secured Party to collect such deficiency.

(d) If the Secured Party shall determine to exercise its rights to sell all or any of the Collateral pursuant to this Section, the Grantor agrees that, upon request of the Secured Party, the Grantor will, at its own expense, do or cause to be done all such acts and things as may be necessary to make such sale of the Collateral or any part thereof valid and binding and in compliance with applicable law.

14. No Waiver and Cumulative Remedies. The Secured Party shall not by any act (except by a written instrument pursuant to **Section 16**), delay, indulgence, omission or otherwise be deemed to have waived any right or remedy hereunder or to have acquiesced in any Default or Event of Default. All rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies provided by law.

15. Security Interest Absolute. All rights of the Secured Party hereunder, and all Secured Obligations of the Grantor hereunder, shall be absolute and unconditional irrespective of:

(a) any illegality or lack of validity or enforceability of any Secured Obligation or any related agreement or instrument;

(b) any change in the time, place or manner of payment of, or in any other term of, the Secured Obligations, or any rescission, waiver, amendment or other modification of the Senior Notes, this Agreement or any other agreement, including any increase in the Secured Obligations resulting from any extension of additional credit or otherwise;

(c) any taking, exchange, substitution, release, impairment or non-perfection of any Collateral or any other collateral, or any taking, release, impairment, amendment, waiver or other modification of any guaranty, for all or any of the Secured Obligations;

(d) any manner of sale, disposition or application of proceeds of any Collateral or any other collateral or other assets to all or part of the Secured Obligations;

(e) any default, failure or delay, wilful or otherwise, in the performance of the Secured Obligations;

(f) any defense, set-off or counterclaim (other than a defense of payment or performance) that may at any time be available to, or be asserted by, the Grantor against the Secured Party; or

(g) any other circumstance (including, without limitation, any statute of limitations) or manner of administering the Loans or any existence of or reliance on any representation by the Secured Party that might vary the risk of the Grantor or otherwise operate as a defense available to, or a legal or equitable discharge of, the Grantor or any other grantor, guarantor or surety.

16. Amendments. None of the terms or provisions of this Agreement may be amended, modified, supplemented, terminated or waived, and no consent to any departure by the Grantor therefrom shall be effective unless the same shall be in writing and signed by the Secured Party and the Grantor, and then such amendment, modification, supplement, waiver or consent shall be effective only in the specific instance and for the specific purpose for which made or given.

17. Addresses For Notices. All notices and other communications provided for in this Agreement shall be in writing and shall be given in the manner and become effective as set forth in the Senior Note, and addressed to the respective parties at their addresses as specified on the signature pages hereof or as to either party at such other address as shall be designated by such party in a written notice to each other party.

18. Continuing Security Interest; Further Actions. This Agreement shall create a continuing First Priority lien and security interest in the Collateral and shall subject to **Section 19**, remain in full force and effect until payment and performance in full of the Secured Obligations.

19. Termination; Release. On the date on which all Secured Obligations have been paid and performed in full and all commitments of the Secured Parties to lend or make any extensions of credit shall have terminated or waived, the Secured Party will, at the request and sole expense of the Grantor, (a) duly assign, transfer and deliver to or at the direction of the Grantor (without recourse and without any representation or warranty) such of the Collateral as may then remain in the possession of the Secured Party, together with any monies at the time held by the Secured Party hereunder, and (b) execute and deliver to the Grantor a proper instrument or instruments acknowledging the satisfaction and termination of this Agreement.

20. Governing Law; Jurisdiction. This Agreement and any claim, controversy, dispute or cause of action (whether in contract or tort or otherwise) based upon, arising out of or relating to this Agreement (except, as to the Senior Note, as expressly set forth therein) and the transactions contemplated hereby shall be governed by, and construed in accordance with, the laws of the State of New Jersey, without regard to the conflicts of law provisions of the State of New Jersey, or of any other state. EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY AND ALL RIGHTS TO TRIAL BY JURY IN CONNECTION WITH ANY CLAIM, ACTION, SUIT OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT AND THE OTHER TRANSACTION DOCUMENTS AND THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY. TO THE FULLEST EXTENT PERMITTED BY LAW, EACH PARTY HERETO HEREBY IRREVOCABLY AGREES THAT ANY SUCH CLAIM, ACTION, SUIT OR PROCEEDING MAY BE BROUGHT IN ANY NEW JERSEY STATE COURT OR UNITED STATES DISTRICT COURT FOR THE DISTRICT OF NEW JERSEY AND WAIVES ANY OBJECTION TO THE VENUE OF THE AFORESAID COURTS.

2 1 . Assignment. This Agreement shall (i) be binding upon the Grantor, its respective successors and assigns and (ii) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of the Secured Party and each of their successors, transferees and assignees; *provided that* the Grantor may not assign or otherwise transfer any of its rights or obligations under this Agreement without the prior written consent of the Secured Party. Except for the holder of a Permitted Lien, no other Persons (including any other creditor of the Grantor) shall have any interest herein or any right or benefit with respect hereto.

2 2 . Severability. Should any one or more of the provisions of this Agreement be determined to be illegal or unenforceable, all other provisions shall remain effective and binding on the parties hereto.

23. Counterparts; Entire Agreement. This Agreement and any amendments, waivers, consents or supplements hereto may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or in electronic (i.e., "pdf" or "tif") format shall be effective as delivery of a manually executed counterpart of this Agreement. This Agreement constitutes the entire contract among the parties with respect to the subject matter hereof and supersede all previous agreements and understandings, oral or written, with respect thereto.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first above written.

SHORELINE CAPITAL MANAGEMENT LTD, as
Grantor

By: /s/ Trevor Folk

Name: Trevor Folk
Title: President
Address for Notices:

Suite 103, 145 King Street West, Toronto, Ontario
M5W 1J8

SHORELINE MEMORY INC., as Grantor

By /s/ Trevor Folk

Name: Trevor Folk
Title: President
Address for Notices:

Suite 103, 145 King Street West, Toronto, Ontario
M5W 1J8

DATARAM CORPORATION, as Secured Party

By /s/ John H. Freeman

Name: John H. Freeman
Title: President and CEO
Address for Notices:

777 Alexander Road, Suite 100
Princeton, NJ 08540

Rule 13a-14(a) Certification

CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO SECTION 302

I, John H. Freeman, 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 auditors and the audit committee of 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.

Date: September 14, 2012

/s/ John H. Freeman

John H. Freeman, President and
Chief Executive Officer
(Principal Executive Officer)

Rule 13a-14(a) Certification

CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO SECTION 302

I, Marc P. Palker, 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 auditors and the audit committee of 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.

Date: September 14, 2012

/s/ Marc P. Palker
Marc P. Palker
Chief Financial Officer
(Principal Financial & Accounting Officer)

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Dataram Corporation, a New Jersey corporation (the "Company"), on Form 10-Q for the quarter ended July 31, 2012, as filed with the Securities and Exchange Commission (the "Report"), John H. Freeman, Chief Executive Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

September 14, 2012

/s/ John H. Freeman
John H. Freeman
President and Chief Executive Officer

[A signed original of this written statement required by Section 906 has been provided to Dataram Corporation and will be retained by Dataram Corporation and furnished to the Securities and Exchange Commission or its staff upon request.]

**CERTIFICATION OF CHIEF FINANCIAL OFFICER PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)**

In connection with the Quarterly Report of Dataram Corporation, a New Jersey corporation (the "Company"), on Form 10-Q for the quarter ended July 31, 2012, as filed with the Securities and Exchange Commission (the "Report"), Mark E. Maddocks, Chief Financial Officer of the Company, does hereby certify, pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350), that to his knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

September 14, 2012

/s/ Marc P. Palker
Marc P. Palker
Chief Financial Officer

[A signed original of this written statement required by Section 906 has been provided to Dataram Corporation and will be retained by Dataram Corporation and furnished to the Securities and Exchange Commission or its staff upon request.]