

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 **October 31, 2014**

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 December 22, 2014, there were 2,593,012 shares outstanding.

PART I: FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

**Dataram Corporation and Subsidiaries
Consolidated Balance Sheets
October 31, 2014 and April 30, 2014**

	<u>October 31, 2014</u>	<u>April 30, 2014</u>
	<u>(Unaudited)</u>	<u>(Note 1)</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,717	\$ 257,633
Accounts receivable, less allowance for doubtful accounts and sales returns of \$220,000 at October 31, 2014 and April 30, 2014	2,960,977	3,662,898
Inventories	2,071,913	2,291,038
Other current assets	169,344	7,227
Total current assets	<u>5,234,951</u>	<u>6,218,796</u>
Property and equipment, at cost:		
Machinery and equipment	450,961	450,961
Leasehold improvements	607,867	607,867
	<u>1,058,828</u>	<u>1,058,828</u>
Less: accumulated depreciation and amortization	894,025	840,026
Net property and equipment	<u>164,803</u>	<u>218,802</u>
Other assets		
Capitalized software development costs	49,210	51,160
Goodwill	365,424	—
	1,083,555	1,083,555
	<u>\$ 6,897,943</u>	<u>\$ 7,572,313</u>
Liabilities and Stockholders' Equity		
Current liabilities:		
Note payable-revolving credit line	\$ 2,616,374	\$ 2,969,857
Accounts payable	2,249,355	1,438,748
Accrued liabilities	589,577	927,944
	600,000	—
Convertible notes payable, net of discount	150,000	—
Convertible notes payable related parties, net of discount	<u>150,000</u>	<u>—</u>
Total current liabilities	6,205,306	5,336,549
Other liabilities		
	214,995	250,826
Total liabilities	<u>6,420,301</u>	<u>5,587,375</u>
Stockholders' equity:		
Common stock, par value \$1.00 per share.		
Authorized 54,000,000 shares; issued and outstanding 2,410,512 at October 31, 2014 and April 30, 2014	2,410,512	2,410,512
Additional paid-in capital	20,995,525	20,236,093
Accumulated deficit	(22,928,395)	(20,661,667)
Total stockholders' equity (deficit)	<u>477,642</u>	<u>1,984,938</u>
	<u>\$ 6,897,943</u>	<u>\$ 7,572,313</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries
Consolidated Statements of Operations
Three and Six Months Ended October 31, 2014 and 2013
(Unaudited)

	<u>2014</u>		<u>2013</u>	
	<u>Three Months</u>	<u>Six Months</u>	<u>Three Months</u>	<u>Six Months</u>
Revenues	\$ 6,879,716	\$ 14,604,753	\$ 7,410,229	\$ 14,776,959
Costs and expenses:				
Cost of sales	5,871,582	12,347,814	5,841,266	11,646,310
Engineering	151,734	317,289	299,692	619,019
Selling, general and administrative	1,667,084	3,311,292	1,630,267	3,670,000
Gain on asset disposal	—	—	(103,000)	(103,000)
	<u>7,690,400</u>	<u>15,976,395</u>	<u>7,668,225</u>	<u>15,832,329</u>
Loss from operations	<u>(810,684)</u>	<u>(1,371,642)</u>	<u>(257,996)</u>	<u>(1,055,370)</u>
Other income (expense):				
Interest expense, net	(683,345)	(877,032)	(91,578)	(175,995)
Currency gain (loss), net	(12,932)	(15,204)	11,382	11,543
Total other expense, net	<u>(696,277)</u>	<u>(892,236)</u>	<u>(80,196)</u>	<u>(164,452)</u>
Loss before income taxes	(1,506,961)	(2,263,878)	(338,192)	(1,219,822)
Income tax expense	—	2,850	—	—
Net loss	<u>\$ (1,506,961)</u>	<u>\$ (2,266,728)</u>	<u>\$ (338,192)</u>	<u>\$ (1,219,822)</u>
Net loss per share of common stock				
Basic	<u>\$ (.63)</u>	<u>\$ (.94)</u>	<u>\$ (.18)</u>	<u>\$ (.67)</u>
Diluted	<u>\$ (.63)</u>	<u>\$ (.94)</u>	<u>\$ (.18)</u>	<u>\$ (.67)</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries
Consolidated Statements of Cash Flows
Six Months Ended October 31, 2014 and 2013
(Unaudited)

	2014	2013
Cash flows from operating activities:		
Net loss	\$ (2,266,728)	\$ (1,219,822)
Adjustments to reconcile net loss to net cash used in operating activities:		
Gain on sale of property and equipment	—	(103,000)
Amortization of deferred gain on sale leaseback	(35,832)	
Depreciation and amortization	53,999	183,500
Bad debt expense	23,147	161,576
Amortization of debt discount	750,000	—
Stock-based compensation expense	9,432	38,682
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	678,774	(15,955)
Decrease in inventories	219,125	721,311
Increase in other current assets	(162,117)	(117,348)
Decrease in other assets	1,950	6,532
Increase in accounts payable	810,607	358,513
Decrease in accrued liabilities	(338,367)	(61,247)
Net cash used in operating activities	(256,009)	(47,258)
Cash flows from investing activities:		
Software development cost	(365,424)	—
Sale of property and equipment	—	500,000
	(365,424)	500,000
Net cash provided by (used in) investing activities		
Cash flows from financing activities:		
Net borrowings (payments) under revolving credit line	(353,483)	(169,712)
Proceeds from issuance of convertible notes and warrants	750,000	—
Payments under related party note payable	—	(700,000)
Net proceeds from sale of common shares	—	695,491
Net cash provided by (used in) financing activities	396,517	(174,221)
Net increase (decrease) in cash and cash equivalents	(224,916)	278,521
Cash and cash equivalents at beginning of period	257,633	324,235
Cash and cash equivalents at end of period	<u>\$ 32,717</u>	<u>\$ 602,756</u>
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 127,032	\$ 182,814
Supplemental disclosures of cash flow information:		
Debt discount on convertible notes payable	\$ 750,000	\$ —

See accompanying notes to consolidated financial statements.

DATARAM CORPORATION AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
Six Months Ended October 31, 2014
(Unaudited)

	<u>Number of Common shares</u>	<u>Common stock</u>	<u>Additional paid-in capital</u>	<u>Accumulated deficit</u>	<u>Total stockholders' equity</u>
Balance at April 30, 2014	2,410,512	2,410,512	20,236,093	(20,661,667)	1,984,938
Net loss	—	—	—	(2,266,728)	(2,266,728)
Stock-based compensation expense	—	—	9,432	—	9,432
Fair value of detachable warrants	—	—	562,000	—	562,000
Beneficial conversion feature of convertible notes payable	—	—	188,000	—	188,000
Balance at October 31, 2014	<u>2,410,512</u>	<u>\$ 2,410,512</u>	<u>\$20,995,525</u>	<u>\$ (22,928,395)</u>	<u>\$ 477,642</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiaries
Notes to Consolidated Financial Statements
October 31, 2014 and 2013
(Unaudited)

(1) Description of Business and Significant Accounting Policies

Dataram Corporation (the -"Company") 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 and 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.

Liquidity and Basis of Presentation

The information for the three and six months ended October 31, 2014 and 2013 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, 2014 included in the Company's 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission. The April 30, 2014 balance sheet has been derived from these statements.

The Company's financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. For the fiscal years ended April 30, 2014, 2013 and 2012, the Company incurred losses in the amounts of approximately \$2,609,000, \$4,625,000 and \$3,259,000, respectively. Net cash used in operating activities totaled approximately \$1,554,000, \$3,882,000 and \$1,218,000 for the fiscal years ended April 30, 2014, 2013 and 2012, respectively. In the six months ending October 31, 2014 the Company incurred losses of approximately \$2,267,000, and used net cash in operations totaled approximately \$256,000.

On July 15, 2014, the Company entered into a Subordinated Secured Convertible Bridge Note and Warrant Purchase Agreement (the "Purchase Agreement") governing the issuance of \$750,000 aggregate principal amount of Subordinated Secured Convertible Bridge Notes (the "Bridge Notes") and Warrants (the "Warrants"). The Bridge Notes and Warrants were issued on July 15, 2014. The Company issued \$600,000 aggregate principal amount of the Bridge Notes to certain institutional investors (the "Institutional Investors") and \$150,000 aggregate principal amount of the Bridge Notes to certain members of management, officers and directors of the Company ("Management"). The Bridge Notes, the initial maturity date of which was October 15, 2014 (which was subject to a three-month extension at the option of the holders that occurred; see below), are convertible into shares of the Company's common stock. The initial conversion price for Institutional Investors is \$2.50 per share (which was subsequently reduced; see below), and the initial conversion price for Management is equal to the closing price of the Company's common stock on the closing date of the Purchase Agreement, \$2.94. The Bridge Notes are secured obligations of the Company and bear interest at a rate of 8% per year. The Warrants are exercisable for five years after the closing date of the Purchase Agreement, or July 15, 2019. For each \$1,000 of principal amount of Bridge Notes, the holder received 1,200 Warrants, each exercisable for the purchase of one share of the Company's common stock. Each holder is entitled to exercise one-third of all warrants received at an exercise price of \$3.00, one-third of all warrants received at an exercise price of \$3.50, and one-third of all warrants received at an exercise price that is equal to the closing price on the closing date of the Purchase Agreement, \$2.94. Pursuant to the terms of the Purchase Agreement, the Company has agreed to register for re-sale the shares underlying the Bridge Notes and the Warrants.

On October 15, 2014, the original maturity date of the Bridge Notes, the maturity date of the Bridge Notes was extended to January 15, 2015 for all holders of the Bridge Notes. On November 12, 2014 the Company closed the sale of 600,000 shares of its Series A Preferred Stock (the "Series A Stock"), which resulted in the reduction of the conversion price of the Bridge Notes held by the institutional investors to \$2.00 from \$2.50 to equal the conversion price of the Series A Preferred Stock (see below). In addition, two additional 90 extensions were provided to the institutional investors, which could extend the final maturity date to July 15, 2015. In the event the bridge notes are converted to equity, the incremental fair value of modified bridge notes will be recognized in the consolidated statement of operations.

As disclosed above, on November 17, 2014 the Company closed a private placement of 600,000 shares of its Series A Stock, together with immediately exercisable, five-year Warrants to purchase shares of its common stock (the "Preferred Warrants"), at a price of \$5.00 per share of Series A Stock to certain otherwise unaffiliated institutional investors (the "Series A Investors"). The Series A Stock is convertible into shares of the Company's common stock in an amount initially calculated (subject to adjustment) by dividing the \$5.00 stated value of each share of Series A Stock by \$2.00. The Preferred Warrants have an initial exercise price of \$2.50 per share (subject to adjustment). The net proceeds to the Company from the sale of these securities, after deducting the estimated offering expenses incurred by the Company, were approximately \$2,700,000.

At any time from November 17, 2014, the date of Closing, and prior to October 20, 2019 (the "Put/Call Exercise Period"), the Series A Investors may exercise a right to purchase and require the Company to sell up to an additional 700,000 shares of Series A Stock on terms identical to the terms for the original sale of the Series A Stock, except that, upon such exercise, no additional Preferred Warrants are granted. If the Series A Investors have not exercised this right in full during the Put/Call Exercise Period, the Company may exercise a right to cause and require the Series A Investors to purchase any or all of such otherwise un-purchased 700,000 shares of Series A Stock on terms identical to the terms for the original sale of the Series A Stock, except that, upon such exercise, no additional Preferred Warrants are granted, in either case for an aggregate purchase price of up to \$3,500,000.

If current and projected revenue growth does not meet estimates, the Company may call upon the remaining Series A Stock available for sale. There are 700,000 Series A Shares available for call by the Company at \$5.00 per share.

Principles of Consolidation

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

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, inventory reserves, 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 has been developing computer software for its storage caching product line. On May 1, 2014, the Company determined that technological feasibility for the product was established, and development costs subsequent to that date totaling approximately \$365,000 have been capitalized. In December 2014 the Company suspended development of the software product. Prior to May 1, 2014, the Company expensed all development costs related to this product line.

Advertising

Advertising is expensed as incurred and amounted to approximately \$49,000 and \$61,000 in the three and six months periods ended October 31, 2014, respectively compared to approximately \$45,000 and \$90,000 in the comparable prior year periods.

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 October 31, 2014, the Company had Federal and state net operating loss (“NOL”) carry-forwards of approximately \$25,600,000 and \$24,000,000, respectively. These can be used to offset future taxable income and expire between 2023 and 2034 for Federal tax purposes and 2016 and 2034 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 October 31, 2014 and April 30, 2014.

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 and six months ended October 31, 2014 and 2013 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 and six month periods ended October 31, 2014 and 2013.

	Three Months ended October 31, 2014		
	Loss	Shares	Per share
	(numerator)	(denominator)	amount
Basic net loss per share – net loss and weighted average common shares outstanding	\$ (1,506,961)	2,410,512	\$ (.63)
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>\$ (1,506,961)</u>	<u>2,410,512</u>	<u>\$ (.63)</u>
	Three Months ended October 31, 2013		
	Loss	Shares	Per share
	(numerator)	(denominator)	amount
Basic net loss per share – net loss and weighted average common shares outstanding	\$ (338,192)	1,899,227	\$ (.18)
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>\$ (338,192)</u>	<u>1,899,227</u>	<u>\$ (.18)</u>

	Six Months ended October 31, 2014		
	Loss	Shares	Per share
	(numerator)	(denominator)	amount

Basic net loss per share – net loss and weighted average common shares outstanding	\$ (2,266,728)	2,410,512	\$ (.94)
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>\$ (2,266,728)</u>	<u>2,410,512</u>	<u>\$ (.94)</u>

	Six Months ended October 31, 2013		
	Loss	Shares	Per share
	(numerator)	(denominator)	amount

Basic net loss per share – net loss and weighted average common shares outstanding	\$ (1,219,822)	1,826,945	\$ (.67)
Effect of dilutive securities – stock options	—	—	—
Diluted net loss per share – net loss, weighted average common shares outstanding and effect of stock options	<u>\$ (1,219,822)</u>	<u>1,826,945</u>	<u>\$ (.67)</u>

Diluted net loss per common share for the three and six month periods ended October 31, 2014 and 2013 do not include the effect of options to purchase 256,580 and 298,665 shares, respectively, of common stock because they are anti-dilutive. Diluted net loss per common share for the three and six month periods ended October 31, 2014 and 2013 do not include the effect of warrants to purchase 1,385,775 and 571,875 shares of common stock, respectively 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 83,333 shares of the Company's common stock. On April 10, 2012, the Company announced the additional authorization to repurchase up to 138,000 shares of the Company's common stock which at that time made the total available for purchase of up to 166,667 shares. The Company did not purchase shares in the six months ended October 31, 2013. In the quarter ended July 31, 2012, the Company repurchased 22,944 shares for a total cost of \$142,262. The 22,944 shares purchased were cancelled in fiscal 2013. As of October 31, 2014, the total number of shares authorized for purchase under the program is 136,408 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 300,000 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 33,333 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 25,000 shares granted under this plan.

The Company also has a 2014 equity incentive 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. The plan allows granting of up to 250,000 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 not been 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 Micro Memory Bank, Inc. ("MMB") business unit described in Note 2 and is an executive officer of the Company, nonqualified stock options to purchase 16,667 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 16,667 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 16,667 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 vested 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 and six month periods ended October 31, 2014 include approximately \$5,000 and \$9,000 of stock-based compensation expense, respectively. The three and six month periods ended October 31, 2013 include approximately \$18,000 and \$39,000 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 six months ended October 31, 2014 is as follows:

	<u>Shares</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual life (1)</u>	<u>Aggregate intrinsic value</u>
Balance April 30, 2014	264,244	\$ 12.42	4.46	\$ 14,750
Expired	<u>(16,000)</u>	\$ 15.42	—	—
Balance October 31, 2014	<u>248,244</u>	\$ 12.23	4.22	\$ 14,750
Exercisable October 31, 2014	<u>235,744</u>	\$ 12.75	3.99	\$ 7,375
Expected to vest October 31, 2014	<u>224,000</u>	\$ 12.23	3.99	\$ 7,375

(1) This amount represents the weighted average remaining contractual life of stock options in years.

As of October 31, 2014, there was approximately \$5,000 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 8,333 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 \$15.60 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.

(2) Related Party Transactions

During the three month periods ending October 31, 2014 and 2013, the Company purchased inventories for resale totaling approximately \$299,000 and \$606,000, respectively, from Sheerr Memory, LLC ("Sheerr Memory"). During the six month periods ending October 31, 2014 and 2013, the Company purchased inventories for resale totaling approximately \$773,000 and \$1,464,000, respectively, from Sheerr Memory. Sheerr Memory's owner ("Mr. Sheerr") is employed by the Company as the general manager of its Micro Memory business unit and is an executive officer of the Company. Approximately \$246,000 and \$271,000 of accounts payable in the Company's consolidated balance sheets as of October 31, 2014 and April 30, 2014, 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 October 31, 2014 and management anticipates that the Company will continue to do so, although the Company has no obligation to do so.

During the three month periods ending October 31, 2014 and 2013, the Company purchased inventories for resale totaling approximately \$270,000 and \$166,000, respectively, from Keystone Memory Group ("Keystone Memory"). During the six month periods ending October 31, 2014 and 2013, the Company purchased inventories for resale totaling approximately \$526,000 and \$337,000, respectively, from Keystone Memory. Keystone Memory's owner is a relative of Mr. Sheerr. Approximately \$107,000 and \$27,000 of accounts payable in the Company's consolidated balance sheets as of October 31, 2014 and April 30, 2014 are payable to Keystone Memory. Keystone Memory offers the Company trade terms of net due and all invoices are settled in the normal course of business. No interest is paid. The Company has made further purchases from Keystone Memory subsequent to October 31, 2014 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 60 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. The Company has borrowed the full \$2,000,000 available under this agreement. Principal amounts due under this obligation are \$33,333 per month which began on July 15, 2012.

The Company amended and restated its Note and Security Agreement with Mr. Sheerr as of October 31, 2013; the Company sold certain equipment and furniture for a purchase price of \$500,000 under a sale leaseback transaction to Mr. Sheerr. The Company used the proceeds of the purchase price received from Mr. Sheerr to reduce the remaining principal amount of the original loan by an amount equal to \$500,000. The principal amount was reduced to approximately \$966,667 at October 31, 2013. The Company was obligated to pay monthly, interest equal to 10% per annum calculated on a 360 day year of the outstanding loan balance. Principal was payable in 29 equal monthly installments of \$33,333, beginning on November 15, 2013 and subsequently on the 15th day of each month thereafter, until paid in full. On April 30, 2014, the note was paid in full.

As of October 31, 2013, the Company also entered into an agreement with Mr. Sheerr to leaseback the aforementioned equipment and furniture that was sold to Mr. Sheerr on October 31, 2013. The lease is for a term of 60 months and the Company is obligated to pay approximately \$7,500 per month for the term of the lease. The Company has an option to extend the lease for an additional two year period. The transactions described have been accounted for as a sale-leaseback transaction. Accordingly, the Company recognized a gain on the sale of assets of approximately \$139,000, which is the amount of the gain on sale in excess of present value of the future lease payments and will recognize the remaining approximately \$322,000 gain on sale in proportion to the related gross rental charged to expense over the term of the lease, 60 months. The current portion of \$72,000 deferred gain was reflected in accrued liabilities and the long-term portion of \$250,000 is reflected in other liabilities – long-term in the consolidated balance sheet as of April 30, 2014. The current portion of \$72,000 deferred gain is reflected in accrued liabilities and the long-term portion of \$215,000 is reflected in other liabilities – long-term in the consolidated balance sheet as of October 31, 2014.

(3) Cash and Cash Equivalents

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

(4) Accounts Receivable

Accounts receivable consists of the following categories:

	October 31, 2014	April 30, 2014
Trade receivables	\$ 3,055,291	\$ 3,757,408
Other receivables	125,686	125,490
Allowance for doubtful accounts and sales returns	(220,000)	(220,000)
	<u>\$ 2,960,977</u>	<u>\$ 3,662,898</u>

(5) Inventories

Inventories are valued at the lower of cost or market, with costs determined by the first-in, first-out method. Inventories at October 31, 2014 and April 30, 2014 consist of the following categories:

	October 31, 2014	April 30, 2014
Raw materials	\$ 1,377,772	\$ 1,576,238
Work in process	76,821	63,631
Finished goods	617,320	651,169
	<u>\$ 2,071,913</u>	<u>\$ 2,291,038</u>

(6) 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 could 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 advanced money under the note, the Company was granted 1% of the outstanding Common Stock of Shoreline for every \$100,000 advanced up to a maximum of 15%. This was 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 had a maturity date of July 30, 2015 at such time Shoreline would have had to repay the note or the Company would have had to convert the note into Common Stock. The note was 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 up to 30% of the outstanding common stock of Shoreline at the time of exercise, which the warrant expires September 28, 2018. The warrant prescribed a formula to determine the price per share at the time of exercise. If all the amounts under the note were advanced and converted and the full warrant was exercised, the Company would have owned 60% of the outstanding common stock of Shoreline. The note was executed simultaneously with a Master Services Agreement that details the parameters under which the Company and Shoreline would have fulfilled 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. On February 19, 2013, the Company received \$50,000 from Shoreline and, on February 22, 2013, the Company received an additional \$200,000 from Shoreline as a partial repayment of their loan. On March 27, 2013, the Company reached an agreement to terminate its relationship with Shoreline. At closing, the Company received an additional \$225,000 as a partial repayment of the loan in connection with the termination of all agreements with Shoreline. The promissory note bears interest at the rate of 6% and is guaranteed by Shoreline Memory, Inc., Shoreline Capital Management Ltd and Trevor Folk. All agreements with Shoreline have been terminated with the exception of the amended and restated promissory note. The remaining \$275,000 was scheduled to be repaid in accordance with the amended and restated promissory note on July 31, 2013. Shoreline Memory defaulted on the note. The Company set up an allowance for the total \$275,000 balance remaining on the amended and restated promissory note at July 31, 2013. During the quarter ended October 31, 2013 the Company agreed to settle the amount due on the defaulted note for approximately \$162,000. The funds were received in escrow on October 31, 2013 and forwarded to the Company on November 1, 2013.

(7) Goodwill and Intangible Assets

Goodwill:

The carrying value of goodwill of approximately \$1,084,000 is not amortized, but is tested annually as of March 31, the annual anniversary of the acquisition, as well as whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a two-step process. In the quarter ended October 31, 2014, and April 30, 2014 the Company concluded that no impairment of goodwill is required.

Intangible Assets:

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, 2013 totaled approximately \$41,000. Intangible asset amortization was included in selling, general and administrative expense. The intangible assets were fully amortized in the fiscal year ended April 30, 2014.

(8) Financing Agreements

The Company amended and restated its Note and Security Agreement with Mr. Sheerr as of October 31, 2013; the Company sold certain equipment and furniture for a purchase price of \$500,000 under a sale leaseback transaction to Mr. Sheerr. The Company used the proceeds of the purchase price received from Mr. Sheerr to reduce the remaining principal amount of the original loan by an amount equal to \$500,000. The principal amount was reduced to approximately \$966,667 at October 31, 2013. The Company was obligated to pay monthly interest equal to 10% per annum calculated on a 360 day year of the outstanding loan balance. Principal was payable in 29 equal monthly installments of \$33,333, beginning on November 15, 2013 and subsequently on the 15th day of each month thereafter, until paid in full. On April 30, 2014 the note was paid in full.

As of October 31, 2013, the Company entered into an agreement with Mr. Sheerr to leaseback the equipment and furniture that was sold by the Company to Mr. Sheerr on October 31, 2013. The lease is for a term of 60 months and the Company is obligated to pay approximately \$7,500 per month for the term of the lease. The Company has an option to extend the lease for an additional two year period. The transactions described have been accounted for as a sale-leaseback transaction. Accordingly, the Company recognized a gain on the sale of assets of approximately \$139,000, which is the amount of the gain on sale in excess of present value of the future lease payments with the remainder of approximately \$322,000 gain on sales to be recognized in proportion to the related gross rental charged to expense over the term of the lease, 60 months. The current portion of \$72,000 deferred gain was reflected in accrued liabilities and the long-term portion of \$250,000 is reflected in other liabilities – long-term in the consolidated balance sheet as of April 30, 2014. The current portion of \$72,000 deferred gain is reflected in accrued liabilities and the long-term portion of \$215,000 is reflected in other liabilities – long-term in the consolidated balance sheet as of October 31, 2014.

On July 30, 2012, a Convertible Senior Promissory Note was executed by and between Shoreline Memory, Inc. (“Shoreline”) and the Company whereby the Company could 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 advanced money under the note, the Company was granted 1% of the outstanding Common Stock of Shoreline for every \$100,000 advanced up to a maximum of 15%. This was 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 had a maturity date of July 30, 2015 at such time Shoreline would have had to repay the note or the Company would have had to convert the note into Common Stock. The note was 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 up to 30% of the outstanding common stock of Shoreline at the time of exercise, which the warrant expires September 28, 2018. The warrant prescribed a formula to determine the price per share at the time of exercise. If all the amounts under the note were advanced and converted and the full warrant was exercised, the Company would have owned 60% of the outstanding common stock of Shoreline. The note was executed simultaneously with a Master Services Agreement that details the parameters under which the Company and Shoreline would have fulfilled 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. On February 19, 2013, the Company received \$50,000 from Shoreline and, on February 22, 2013, the Company received an additional \$200,000 from Shoreline as a partial repayment of their loan. On March 27, 2013, the Company reached an agreement to terminate its relationship with Shoreline. At closing, the Company received an additional \$225,000 as a partial repayment of the loan in connection with the termination of all agreements with Shoreline. The promissory note bears interest at the rate of 6% and is guaranteed by Shoreline Memory, Inc., Shoreline Capital Management Ltd and Trevor Folk. All agreements with Shoreline have been terminated with the exception of the amended and restated promissory note. The remaining \$275,000 was scheduled to be repaid in accordance with the amended and restated promissory note on July 31, 2013. Shoreline Memory defaulted on the note. The Company set up an allowance for the total \$275,000 balance remaining on the amended and restated promissory note at July 31, 2013. During the quarter ended October 31, 2013 the Company agreed to settle the amount due on the defaulted note for approximately \$162,000. The funds were received in escrow on October 31, 2013 and forwarded to the Company on November 1, 2013.

On November 6, 2013, the Company entered into a new financing agreement (the "Financing Agreement") with Rosenthal & Rosenthal, Inc. to replace an existing loan agreement. The Financing Agreement provides for a revolving loan with a maximum borrowing capacity of \$3,500,000. The loans under the Financing Agreement mature on November 30, 2016 unless such Financing Agreement is either earlier terminated or renewed. Loans outstanding under the Financing Agreement bear interest at a rate of the Prime Rate (as defined in the Financing Agreement) plus 3.25% (the "Effective Rate") or on Over-advances (as defined in the Financing Agreement), if any, at a rate of the Effective Rate plus 3%. The Financing Agreement contains other financial and restrictive covenants, including, among others, covenants limiting our ability to incur indebtedness, guarantee obligations, sell assets, make loans, enter into mergers and acquisition transactions and declare or make dividends. Borrowings under the Financing Agreement are collateralized by substantially all the assets of the Company. On April 29, 2014, the Company entered into an amendment (the "Amendment") to the Financing Agreement. The Amendment provides for advances against inventory balances based on prescribed formulas of raw materials and finished goods. The maximum borrowing capacity remains at \$3,500,000. Borrowings at October 31, 2014 totaled approximately \$2,616,000 and there was approximately \$72,000 of additional availability on that date.

On July 15, 2014, the Company entered into a Subordinated Secured Convertible Bridge Note and Warrant Purchase Agreement (the "Purchase Agreement") governing the issuance of \$750,000 aggregate principal amount of Subordinated Secured Convertible Bridge Notes (the "Bridge Notes") and Warrants (the "Warrants"). The Bridge Notes and Warrants were issued on July 15, 2014. The Company issued \$600,000 aggregate principal amount of the Bridge Notes to certain institutional investors (the "Institutional Investors") and \$150,000 aggregate principal amount of the Bridge Notes to certain members of management, officers and directors of the Company ("Management"). The Bridge Notes, the initial maturity date of which was October 15, 2014 (which was subject to a three-month extension at the option of the holders that occurred; see below), are convertible into shares of the Company's common stock. The initial conversion price for Institutional Investors is \$2.50 per share (which was subsequently reduced; see below), and the initial conversion price for Management is equal to the closing price of the Company's common stock on the closing date of the Purchase Agreement, \$2.94. The Bridge Notes are secured obligations of the Company and bear interest at a rate of 8% per year. The Warrants are exercisable for five years after the closing date of the Purchase Agreement, or July 15, 2019. For each \$1,000 of principal amount of Bridge Notes, the holder received 1,200 Warrants, each exercisable for the purchase of one share of the Company's common stock. Each holder is entitled to exercise one-third of all warrants received at an exercise price of \$3.00, one-third of all warrants received at an exercise price of \$3.50, and one-third of all warrants received at an exercise price that is equal to the closing price on the closing date of the Purchase Agreement, \$2.94. Pursuant to the terms of the Purchase Agreement, the Company has agreed to register for re-sale the shares underlying the Bridge Notes and the Warrants.

On October 15, 2014, the original maturity date of the Bridge Notes, the maturity date of the Bridge Notes was extended to January 15, 2015 for all holders of the Bridge Notes. On November 12, 2014 the Company closed the sale of 600,000 shares of its Series A Preferred Stock (the "Series A Stock"), which resulted in the reduction of the conversion price of the Bridge Notes held by the institutional investors to \$2.00 from \$2.50 to equal the conversion price of the Series A Preferred Stock (see below). In addition, two additional 90 extensions were provided to the institutional investors, which could extend the final maturity date to July 15, 2015. In the event the bridge notes are converted to equity, the incremental fair value of modified bridge notes will be recognized in the consolidated statement of operations.

The pricing model the Company used for determining fair values of the warrants is the Black-Scholes Pricing Model. The model uses market-sourced inputs such as interest rates, dividend yields, market prices and volatilities. The risk-free interest rate used of 1.26% is based on the rate of U.S Treasury zero-coupon issues with a remaining term equal to the expected life of the Warrants. Expected dividend yield assumes the current dividend rate of zero. Expected volatility of approximately 100% was calculated using the daily closing price over a five year period of the Company's Common Stock.

The value of the warrants was derived and used as a basis to allocate the proceeds received between the warrants and bridge notes. The proportionate value ascribed to the warrants amounted to approximately \$562,000 and was reflected as a discount on notes payable. Further the Company estimated a value of beneficial conversion feature of approximately \$188,000 (limited to the amount of proceeds allocated to the notes payable) and reflected such as an additional discount on the bridge notes. The discount on notes payable is being amortized using the straight line amortization over ninety days. This resulted in a non-cash interest charge of approximately \$617,000 in the quarter ended October 31, 2014 and approximately \$133,000 in this year's fiscal first quarter ended July 31, 2014.

(9) Sales of Securities

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 295,833 shares of its Common Stock and warrants to purchase a total of 221,875 shares of its Common Stock to such investors for aggregate net proceeds 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 \$11.28 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 \$13.56 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 Common Stock. After the one year anniversary of the initial exercise date of the warrants, the Company had the right to call the warrants for cancellation for \$.006 per share in the event that the volume weighted average price of the Common Stock for 20 consecutive trading days exceeds \$27.12.

On September 18, 2013, the Company and certain investors entered into a securities purchase agreement in connection with the offering, pursuant to which the Company agreed to sell an aggregate of 350,931 shares of its common stock and warrants to purchase a total of 350,931 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 \$807,000. The common stock and warrants were sold in fixed combinations, with each combination consisting of one share of common stock and one warrant, with each warrant exercisable for one share of common stock. The purchase price was \$2.30 per fixed combination. On September 23, 2013 the offering of 350,000 shares and warrants was closed with net proceeds to the Company of approximately \$695,491 after accounting for all expenses of the offering. 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 Common Stock. After the one year anniversary of the initial exercise date of the warrants, the Company had the right to call the warrants for cancellation for \$.001 per share in the event that the volume weighted average price of the Common Stock for 20 consecutive trading days exceeds \$10.00.

On March 20, 2014, the Company and certain investors entered into a common stock purchase agreement in connection with the offering, pursuant to which the Company agreed to sell an aggregate of 219,754 shares of its common stock to such investors for aggregate proceeds, after deducting fees to the Placement Agent and other estimated offering expenses payable by the Company, of approximately \$559,000. The purchase price was \$3.00 per share.

On March 20, 2014, holders of warrants issued in connection with the sale of common stock on September 18, 2013, exercised 86,100 of those warrants at the exercise price of \$3.50 per share resulting in net proceeds of approximately \$306,350. The exercise of these warrants resulted in the issuance of 86,100 shares of the Company's common stock.

The pricing model the Company used for determining fair values of the warrants is the Black-Scholes Pricing Model. The model uses market-sourced inputs such as interest rates, dividend yields, market prices and volatilities. The risk-free interest rate used of 1.26% is based on the rate of U.S Treasury zero-coupon issues with a remaining term equal to the expected life of the Warrants. Expected dividend yield assumes the current dividend rate of zero. Expected volatility of approximately 100% was calculated using the daily closing price over a five year period of the Company's Common Stock.

The value of the warrants was derived and used as a basis to allocate the proceeds received between the warrants and bridge notes. The proportionate value ascribed to the warrants amounted to approximately \$562,000 and was reflected as a discount on notes payable. Further the Company estimated a value of beneficial conversion feature of approximately \$188,000 (limited to the amount of proceeds allocated to the notes payable) and reflected such as an additional discount on the bridge notes. The discount on notes payable is being amortized using the straight line amortization over ninety days. This resulted in a non-cash interest charge of approximately \$617,000 in the quarter ended October 31, 2014 and approximately \$133,000 in this year's fiscal first quarter ended July 31, 2014.

On July 15, 2014, the Company entered into a Subordinated Secured Convertible Bridge Note and Warrant Purchase Agreement (the “Purchase Agreement”) governing the issuance of \$750,000 aggregate principal amount of Subordinated Secured Convertible Bridge Notes (the “Bridge Notes”) and Warrants (the “Warrants”). The Bridge Notes and Warrants were issued on July 15, 2014. The Company issued \$600,000 aggregate principal amount of the Bridge Notes to certain institutional investors (the “Institutional Investors”) and \$150,000 aggregate principal amount of the Bridge Notes to certain members of management, officers and directors of the Company (“Management”). The Bridge Notes, the initial maturity date of which was October 15, 2014 (which was subject to a three-month extension at the option of the holders that occurred; see below), are convertible into shares of the Company’s common stock. The initial conversion price for Institutional Investors is \$2.50 per share (which was subsequently reduced; see below), and the initial conversion price for Management is equal to the closing price of the Company’s common stock on the closing date of the Purchase Agreement, \$2.94. The Bridge Notes are secured obligations of the Company and bear interest at a rate of 8% per year. The Warrants are exercisable for five years after the closing date of the Purchase Agreement, or July 15, 2019. For each \$1,000 of principal amount of Bridge Notes, the holder received 1,200 Warrants, each exercisable for the purchase of one share of the Company’s common stock. Each holder is entitled to exercise one-third of all warrants received at an exercise price of \$3.00, one-third of all warrants received at an exercise price of \$3.50, and one-third of all warrants received at an exercise price that is equal to the closing price on the closing date of the Purchase Agreement, \$2.94. Pursuant to the terms of the Purchase Agreement, the Company has agreed to register for re-sale the shares underlying the Bridge Notes and the Warrants.

On October 15, 2014, the original maturity date of the Bridge Notes, the maturity date of the Bridge Notes was extended to January 15, 2015 for all holders of the Bridge Notes. On November 12, 2014 the Company closed the sale of 600,000 shares of its Series A Preferred Stock (the “Series A Stock”), which resulted in the reduction of the conversion price of the Bridge Notes held by the institutional investors to \$2.00 from \$2.50 to equal the conversion price of the Series A Preferred Stock (see below). In addition, two additional 90 extensions were provided to the institutional investors, which could extend the final maturity date to July 15, 2015. In the event the bridge notes are converted to equity, the incremental fair value of modified bridge notes will be recognized in the consolidated statement of operations.

(10) Future Minimum lease payments

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2014 are as follows:

Year ending April 30:	Non- Related Party	Related Party	Total
2015	\$ 301,000	\$ 90,000	\$ 391,000
2016	293,000	90,000	383,000
2017	68,000	90,000	158,000
2018	—	90,000	90,000
2019	—	45,000	45,000
Thereafter	—	—	—
Total	<u>\$ 662,000</u>	<u>\$ 405,000</u>	<u>\$ 1,067,000</u>

(11) 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 and six months ended October 31, 2014 and 2013 by geographic region are as follows:

	Three months ended October 31, 2014	Six months ended October 31, 2014
United States	\$ 5,698,828	\$ 12,329,556
Europe	1,059,476	1,998,243
Other (principally Asia Pacific Region)	121,412	276,954
Consolidated	<u>\$ 6,879,716</u>	<u>\$ 14,604,753</u>

	Three months ended October 31, 2013	Six months ended October 31, 2013
United States	\$ 6,132,297	\$ 12,315,098
Europe	658,421	1,529,048
Other (principally Asia Pacific Region)	619,511	932,813
Consolidated	<u>\$ 7,410,229</u>	<u>\$ 14,776,959</u>

(12) Recently Adopted Accounting Guidance

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, "Revenue from Contracts with Customers". The purpose of this new standard is to clarify the principles for recognizing revenue so that it can be applied consistently across various transactions, industries and capital markets. We have not completed our assessment of ASU No. 2014-09.

(13) 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.

(14) Subsequent Events

On November 12, 2014, the Company completed a private placement of 600,000 shares of its Series A Preferred Stock (“Series A Stock”) together with Warrants to purchase shares of its common stock (“Preferred Warrant”) at a price of \$5.00 per share, in accordance with the Series A Preferred Stock Purchase Agreement dated October 20, 2014 (the “Purchase Agreement”). The net proceeds to the Company from the sale of the Series A Stock and Preferred Warrant, after deducting the estimated offering expenses incurred by the Company were approximately \$2,700,000.

At any time from November 17, 2014, the date of Closing, and prior to October 20, 2019 (the “Put/Call Exercise Period”), the investors may exercise a right to purchase and require the Company to sell up to an additional 700,000 shares of Series A Stock. If the investors have not exercised this right during the Put/Call Exercise Period, the Company may exercise a right to cause and require the investors to purchase up to an additional 700,000 shares of Series A Stock, for an aggregate purchase price of \$3,500,000.

Holders of the Series A Stock shall initially have the right to convert such shares of Series A Stock into the number of authorized but previously unissued shares of the Company’s common stock obtained by dividing the stated value of each share of Series A (\$5.00) by \$2.00. For each share of Series A Stock, the investors will receive 2.5 Preferred Warrants to purchase the Company’s common stock at an exercise price of \$2.50 per share. The Preferred Warrants are exercisable immediately for a period of five years from the date of closing. The exercise price of the Preferred Warrants is subject to adjustments in the case of stock splits, stock dividends, combinations of shares and similar recapitalization transactions. The exercisability of the Preferred Warrants may be limited if upon exercise, the warrant holder or any of its affiliates would beneficially own more than 4.99% of the Company’s Common Stock.

The Holders of the Series A Stock will receive preferential cumulative dividends at the rate of 8% per annum (equivalent to a fixed annual payment of \$0.40 per share). The dividends are payable in shares of common stock and shall be valued at the weighted average price of the Company’s common stock over the ten (10) consecutive trading days ended on the second trading day immediately before the payment date.

The Company can call the investors to purchase up to an additional 700,000 shares of Series A Stock at a purchase price of \$5.00 per share with the same rights as the original purchase. In addition, the investors can put to the Company the right to purchase up to an additional 700,000 shares of Series A Stock at a purchase price of \$5.00 per share with the same rights as the original purchase. Neither party can refuse the put or call. If the maximum additional shares are sold/purchased, the gross proceeds to the Company would be \$3,500,000.

On December 17, 2014 the Company terminated its agreement with MPP Associates, Inc., pursuant to which MPP Associates had been providing CFO services to the Company.

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

The Business section and other parts of this Quarterly Report on Form 10Q ("Form 10-Q") contain forward-looking statements, within the meaning of the Private Securities Litigation Reform Act of 1995, that involve risks and uncertainties. Many of the forward-looking statements are located in "Management's Discussion and Analysis of Financial Condition and Results of Operations." Forward-looking statements provide current expectations of future events based on certain assumptions and include any statement that does not directly relate to any historical or current fact. Forward-looking statements can also be identified by words such as "future," "anticipates," "believes," "estimates," "expects," "intends," "plans," "predicts," "will," "would," "could," "can," "may," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in Part I, Item 1A described in the Company's most recent Annual Report on Form 10-K under the heading "Risk Factors" filed with the Securities and Exchange Commission which can be reviewed at <http://www.sec.gov>. The Company assumes no obligation to revise or update any forward-looking statements for any reason, except as required by law.

Executive Overview

Dataram Corporation (the "Company") 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 as well as a line of memory products for Intel and AMD motherboard based servers. The Company has also developed memory for the consumer market which is sold as AMD branded memory and sold through online retailers. In addition the Company develops and markets proprietary software.

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.

In fiscal 2009, the Company acquired certain assets of Micro Memory Bank, Inc. ("MMB"), a privately held corporation. MMB is a manufacturer of legacy to advanced solutions in laptop, desktop and server memory products. The acquisition expanded the Company's memory product offerings and routes to market. Its products include memory upgrades for IBM, Sun Microsystems, HP and Compaq Computer Corporation ("Compaq") computer systems. MMB also markets and sells new and refurbished factory original memory upgrades manufactured by IBM, Sun Microsystems, HP and Compaq as well as factory original modules manufactured by Micron Technology, Inc. ("Micron"), SK Hynix Inc. ("Hynix"), Samsung, Elpida Memory, Inc. ("Elpida") and Nanya Technology Corporation ("Nanya"), and purchases excess memory inventory from other parties as well.

In fiscal 2013, the Company signed numerous agreements to produce products branded as AMD. These products included the Company's software product RAMDisk, and consumer memory for use in the online gaming and entertainment industries and server memory.

The Company was incorporated in New Jersey in 1967 and made its initial public offering in 1968. Its common stock, \$1 par value (the "Common Stock") was listed for trading on the American Stock Exchange in 1981. In 2000 the Company changed its listing to the NASDAQ National Market (now the NASDAQ Stock Market) where its stock trades under the symbol "DRAM." The Company's principal executive office is located at 777 Alexander Park, Princeton, New Jersey 08540, its telephone number is (609) 799-0071, its fax is (609) 799-6734 and its website is located at <http://www.dataram.com>. Proxy Statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and all amendments thereto, are available on the Company's website free of charge.

Liquidity and Capital Resources

The Company's financial statements are prepared using the accrual method of accounting in accordance with accounting principles generally accepted in the United States of America and have been prepared on a going concern basis, which contemplates the realization of assets and the settlement of liabilities in the normal course of business. For the fiscal years ended April 30, 2014, 2013 and 2012, the Company incurred losses in the amounts of approximately \$2,609,000, \$4,625,000 and \$3,259,000, respectively. Net cash used in operating activities totaled approximately \$1,554,000, \$3,882,000 and \$1,218,000 for the fiscal years ended April 30, 2014, 2013 and 2012, respectively. In the six months ending October 31, 2014 the Company incurred losses of approximately \$2,267,000, and used net cash in operations totaled approximately \$256,000.

On October 15, 2014, the original maturity date of the Bridge Notes, the maturity date of the Bridge Notes was extended to January 15, 2015 for all holders of the Bridge Notes. On November 12, 2014 the Company closed the sale of 600,000 shares of Series A Preferred Stock which reduced the conversion price of the Bridge Notes held by institutional investors to \$2.00 from \$2.50 to equal the conversion price of the Series A Preferred Stock.

As mentioned above, On November 12, 2014 the company completed a private placement of 600,000 shares of its Series A Preferred Stock ("Series A Stock") together with Warrants to purchase shares of its Common Stock ("Preferred Warrant") at a price of \$5.00 per share. The net proceeds to the Company from the sale of the Series A Stock and Preferred Warrant, after deducting the estimated offering expenses incurred by the Company were approximately \$2,700,000.

At any time from November 17, 2014, the date of Closing, and prior to October 20, 2019 (the "Put/Call Exercise Period"), the investors may exercise a right to purchase and require the Company to sell up to an additional 700,000 shares of Series A Stock. If the investors have not exercised this right during the Put/Call Exercise Period, the Company may exercise a right to cause and require the investors to purchase up to an additional 700,000 shares of Series A Stock, for an aggregate purchase price of \$3,500,000.

If current and projected revenue growth does not meet estimates, the Company may call upon the remaining Series A Stock available for sale. There are 700,000 Series A Shares available for call by the Company at \$5.00 per share.

As of October 31, 2014, cash and cash equivalents amounted to approximately \$33,000 and negative working capital of approximately \$970,000. This compares to cash and cash equivalents of approximately \$258,000 and working capital of approximately \$882,000, reflecting a current ratio of 1.2 to 1 as of April 30, 2014.

During the six month period ended October 31, 2014, net cash used in operating activities totaled approximately \$256,000. Net loss in the period totaled approximately \$2,267,000 and included amortization of debt discount of approximately \$750,000. On July 15, 2014, the Company entered into a Subordinated Secured Convertible Bridge Note and Warrant Purchase Agreement more fully described in Note 8. In the quarter ended Stock-based compensation expense of approximately \$9,000 was recorded and depreciation and amortization expense of approximately \$54,000. Inventories decreased by approximately \$219,000. The decrease in inventories was a management decision to reduce inventory levels and conserve working capital. Trade receivable decreased by approximately \$679,000, primarily the result of reduced revenue from the prior quarter. Accounts payable increased by approximately \$810,000, primarily the result the timing of several vendors invoices that were not due on the first half of November. Accrued liabilities decreased by approximately \$338,000, primarily the result of a legal settlement that was accrued in fiscal 2014 and paid in full in the first six months of fiscal 2015 ended October 31, 2014. Other current assets increased by approximately \$162,000, primarily the result of prepaid insurance that the Company is required to pay for certain insurance coverage at the beginning of the policy period.

Net cash used in investing activities totaled approximately \$365,000 and was the result of capitalizing software development costs. On May 1, 2014, the Company determined that technological feasibility for Intelligent Caching Software product was established, and development costs subsequent to that date totaling approximately \$365,000 have been capitalized. In December 2014 the Company suspended development of the software product. Prior to May 1, 2014, the Company expensed all development costs related to this product line.

Net cash provided by financing activities totaled approximately \$397,000 for the six month period ended October 31, 2014 and consisted of proceeds of \$750,000 from the aforementioned Subordinated Secured Convertible Bridge Note and Warrant Purchase Agreement. The Company also paid down approximately \$353,000 of its bank revolving credit line.

As of October 31, 2013, the Company also entered into an agreement with Mr. Sheerr to leaseback the aforementioned equipment and furniture that was sold to Mr. Sheerr on October 31, 2013. The lease is for a term of 60 months and the Company is obligated to pay approximately \$7,500 per month for the term of the lease. The Company has an option to extend the lease for an additional two year period. The transactions described have been accounted for as a sale-leaseback transaction. Accordingly, the Company recognized a gain on the sale of assets of approximately \$139,000, which is the amount of the gain on sale in excess of present value of the future lease payments and will recognize the remaining approximately \$322,000 in proportion to the related gross rental charged to expense over the term of the lease, 60 months. The current portion of \$72,000 deferred gain was reflected in accrued liabilities and the long-term portion of \$250,000 is reflected in other liabilities – long-term in the consolidated balance sheet as of April 30, 2014. The current portion of \$72,000 deferred gain is reflected in accrued liabilities and the long-term portion of \$215,000 is reflected in other liabilities – long-term in the consolidated balance sheet as of October 31, 2014.

On July 30, 2012, a Convertible Senior Promissory Note was executed by and between Shoreline Memory, Inc. (“Shoreline”) and the Company whereby the Company could 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 advanced money under the note, the Company was granted 1% of the outstanding Common Stock of Shoreline for every \$100,000 advanced up to a maximum of 15%. This was 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 had a maturity date of three years and at such time Shoreline would have had to repay the note or the Company would have had to convert the note into Common Stock. The note was 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 of the closing of the transaction. The warrant prescribed a formula to determine the price per share at the time of exercise. If all the amounts under the note were advanced and converted and the full warrant was exercised, the

Company would have owned 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 would have fulfilled 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. On February 19, 2013, the Company received \$50,000 from Shoreline and, on February 22, 2013, the Company received an additional \$200,000 from Shoreline as a partial repayment of their loan. On March 27, 2013, the Company reached an agreement to terminate its relationship with Shoreline. At closing, the Company received an additional \$225,000 as a partial repayment of the loan in connection with the termination of all agreements with Shoreline. The promissory note bears interest at the rate of 6% and is guaranteed by Shoreline Memory, Inc., Shoreline Capital Management Ltd and Trevor Folk. All agreements with Shoreline have been terminated with the exception of the amended and restated promissory note. The remaining \$275,000 was scheduled to be repaid in accordance with the amended and restated promissory note on July 31, 2013. Shoreline Memory defaulted on the note. The Company set up an allowance for the total \$275,000 balance remaining on the amended and restated promissory note at July 31, 2013. During the quarter ended October 31, 2014's the Company agreed to settle the amount due on the defaulted note for approximately \$162,000. The funds were received in escrow on October 31, 2013 and forwarded to the Company on November 1, 2013.

On November 6, 2013, the Company entered into a new financing agreement (the "Financing Agreement") with Rosenthal & Rosenthal, Inc. to replace an existing loan agreement. The Financing Agreement provides for a revolving loan with a maximum borrowing capacity of \$3,500,000. The loans under the Financing Agreement mature on November 30, 2016 unless such Financing Agreement is either earlier terminated or renewed. Loans outstanding under the Financing Agreement bear interest at a rate of the Prime Rate (as defined in the Financing Agreement) plus 3.25% (the "Effective Rate") or on Over-advances (as defined in the Financing Agreement), if any, at a rate of the Effective Rate plus 3%. The Financing Agreement contains other financial and restrictive covenants, including, among others, covenants limiting our ability to incur indebtedness, guarantee obligations, sell assets, make loans, enter into mergers and acquisition transactions and declare or make dividends. Borrowings under the Financing Agreement are collateralized by substantially all the assets of the Company. On April 29, 2014, the Company entered into an amendment (the "Amendment") to the Financing Agreement. The Amendment provides for advances against inventory balances based on prescribed formulas of raw materials and finished goods. The maximum borrowing capacity remains at \$3,500,000. Borrowings at October 31, 2014 totaled approximately \$2,616,000 and there was approximately \$72,000 of additional availability on that date.

Future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of April 30, 2014 are as follows:

Year ending April 30:	Non- Related Party	Related Party	Total
2015	\$ 301,000	\$ 90,000	\$ 391,000
2016	293,000	90,000	383,000
2017	68,000	90,000	158,000
2018	—	90,000	90,000
2019	—	45,000	45,000
Thereafter	—	—	—
Total	<u>\$ 662,000</u>	<u>\$ 405,000</u>	<u>\$ 1,067,000</u>

The Company has no other material commitments.

Results of Operations

Revenues for the three month period ended October 31, 2014 were \$6,880,000 compared to revenues of \$7,410,000 for the comparable prior year period. Revenues for the first six months of the current fiscal year were \$14,605,000 compared to revenues of \$14,777,000 for the comparable prior year period. The decline in volume of approximately 15% in the quarter ended October 31, 2014 compared to the same quarter in the prior year was partially offset by an increase average selling price of approximately 10%. Working capital constraints during the quarter ended October 31, 2014 negatively impacted the Company's ability to secure material to meet customer demands.

Cost of sales for the three and six months ended October 31, 2014 were \$5,871,000 and \$12,348,000, respectively versus \$5,841,000 and \$11,646,000, respectively in the prior year comparable periods. Cost of sales as a percentage of revenues for the three and six months October 31, 2014 were 85% of revenues, respectively versus 79% of revenues, respectively for the same respective prior year periods. The aforementioned working capital constraints have negatively impacted the Company's ability to take advantage of strategic inventory purchases and as a result increased our material cost as a percentage of revenues.

Engineering expense in the three and six months ended October 31, 2014 were approximately \$375,000 and \$682,000, respectively, compared to \$300,000 and \$619,000 for the same respective prior year periods. The Company has been developing computer software for its storage caching product line. On May 1, 2014, the Company determined that technological feasibility for the product was established, and development costs subsequent to that date totaling approximately \$365,000 have been capitalized. During the Quarter ended October 31, 2014 the company capitalized approximately \$223,000 of development expense. In the Quarter ended July 31, 2014 the Company capitalized approximately \$142,000 of development expense. In December 2014 the Company suspended development of the software product. Prior to May 1, 2014, the Company expensed all development costs related to this product line.

Selling, general and administrative (S,G&A) expense for the three and six month period ended October 31, 2014 totaled \$1,667,000 and \$3,311,000, respectively, compared to \$1,630,000 and \$3,670,000 for the same prior year periods. The decrease in this year's six month expense of approximately \$359,000 is primarily the result of recording approximately \$113,000 of bad debt expense in the comparable prior year period. The expense related to a note receivable default, more fully described in note 8. The balance of the decrease in S,G&A expense is reduced sales and marketing cost as the company continues to focus on reducing expenses.

Other income (expense), net for the three and six month period ended October 31, 2014 totaled \$696,000 and \$892,000 of expense, respectively, compared to expense of \$80,000 and \$164,000, for the same prior year periods. Other expense in the three month period ended October 31, 2014 consisted of primarily \$683,000 of interest expense and approximately \$13,000 of foreign currency transaction losses, primarily as a result of the EURO weakening relative to the US dollar. The interest expense recorded in the quarter ended October 31, 2014 includes a non cash interest charge of approximately \$617,000 recorded for the amortization of debt discount as a result of the issuance of the subordinated convertible notes and interest expense of approximately \$66,000 on the Company's revolving bank credit line. Other expense in the three month period ended October 31, 2013 consisted of interest expense of \$92,000 and approximately \$11,000 of foreign currency transaction gains, primarily as a result of the EURO strengthening relative to the US dollar. For the six month period ended October 31, 2014 other expense of approximately \$892,000 consisted of primarily \$877,000 of interest expense and approximately \$15,000 of foreign currency transaction losses, primarily as a result of the EURO weakening relative to the US dollar. The interest expense recorded in six months ended October 31, 2014 includes a non cash interest charge of approximately \$750,000 recorded for the amortization of debt discount as a result of the issuance of the subordinated convertible notes and interest expense of approximately \$127,000 on the Company's revolving bank credit line. For the six month period ended October 31, 2013 other expense of \$164,000, consisted of interest expense of approximately \$176,000 and approximately \$12,000 of foreign currency transaction gains, primarily as a result of the EURO strengthening relative to the US dollar was recorded.

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 of notes to consolidated financial statements included in this Annual Report, management believes the following accounting policies to be critical:

Revenue Recognition - Revenue is recognized when title passes upon shipment of goods to customers. The Company’s revenue earning activities involve delivering or producing goods. The following criteria are met before revenue is recognized: persuasive evidence of an arrangement exists, shipment has occurred, selling price is fixed or determinable and collection is reasonably assured. The Company does experience a minimal level of sales returns and allowances for which the Company accrues a reserve at the time of sale in accordance with the Revenue Recognition – Right of Return Topic of the FASB ASC. Estimated warranty costs are accrued by management upon product shipment based on an estimate of future warranty claims.

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.

Foreign exchange gains and losses arising from the settlement of monetary items or from the translation of exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the profit and loss for the period.

The Company has been developing computer software for its storage caching product line. On May 1, 2014, the Company determined that technological feasibility for the product was established, and development costs subsequent to that date totaling approximately \$365,000 have been capitalized. In December 2014 the Company suspended development of the software product. Prior to May 1, 2014, the Company expensed all development costs related to this product line. Prior to May 1, 2014, the Company expensed all development costs related to this product line.

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.

The carrying value of goodwill of approximately \$1,084,000 is not amortized, but is tested annually as of March 31, the annual anniversary of the acquisition, as well as whenever events or changes in circumstances indicate that the carrying amount may not be recoverable using a two-step process. In the quarter ended October 31, 2014, and April 30, 2014 the Company concluded that no impairment of goodwill is required.

Warrants –The pricing model the Company uses for determining fair values for warrants is the Black-Scholes Pricing Model. Valuations derived from this model are subject to ongoing internal and external verification and review. The model uses market-sourced inputs such as interest rates, market prices and volatilities.

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, inventory reserves, the deferred income tax asset valuation allowance and other operating allowances and accruals. Actual results could differ from those estimates.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company does not invest in market risk sensitive instruments. 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 25% of the Company's accounts receivable is 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 Accounting 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 Accounting 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 October 31, 2014 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

We were party to litigation with the landlord for the property previously leased by the Company in Ivyland, Pennsylvania, which we vacated at the expiration of the lease. The case was commenced in the United States District Court for the Eastern District of Pennsylvania. The landlord claimed that the Company failed to restore the property to its original condition. On July 30, 2013, the District Judge ruled that the Company is required to restore the property to the condition that existed as of January 11, 2006, without making any factual findings on the extent of the Company's liability. However, in order to avoid further cost, resources and legal fees, the Company agreed to settle this matter, which requires three (3) payments of \$75,000 to be remitted to the landlord (i) on the signing of the Settlement Agreement; (ii) within forty five (45) days of the Settlement Agreement; and (iii) within ninety (90) days of the Settlement Agreement. The Company also agreed to relinquish its right to the \$52,000 security deposit in the possession of the landlord. The Company has fully paid the \$225,000 settlement.

Item 1A. RISK FACTORS.

Additional Risk Factors

There have been no material changes to the Risk Factors in Item 1A of our Annual Report on Form 10-K for the fiscal year ended April 30, 2014, other than the following:

ISAAC CAPITAL GROUP CAN ACCUMULATE A CONTROLLING SHARE OF THE COMPANY AND THEREFORE DECIDE MATTERS SUBJECT TO FUTURE VOTES OF STOCKHOLDERS.

The Isaac Capital Group maintains a substantial equity position in the Company and as a result of the sale of the Series A Preferred Stock, the Isaac group could accumulate in excess of the 50% required to control stockholder votes requiring in excess of 50% of voting shares.

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>
31(a)*	Rule 13a-14(a) Certification of John H. Freeman.
31(b)*	Rule 13a-14(a) Certification of Anthony M. Lougee.
32(a)**	Section 1350 Certification of John H. Freeman (furnished not filed).
32(b)**	Section 1350 Certification of Anthony M. Lougee (furnished not filed).
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

* File herewith

** Furnished herewith

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: December 22, 2014

By: /s/ Anthony M. Lougee
Controller, Chief Accounting Officer

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: December 22, 2014

/s/ John H. Freeman

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

Rule 13a-14(a) Certification**CERTIFICATION OF CHIEF ACCOUNTING OFFICER PURSUANT TO SECTION 302**

I, Anthony M. Lougee, 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: December 22, 2014

/s/ Anthony M. Lougee

Anthony M. Lougee
Chief Accounting Officer
(Principal 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 October 31, 2014, 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.

December 22, 2014

/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 October 31, 2014, as filed with the Securities and Exchange Commission (the "Report"), Anthony M. Lougee, Chief Accounting 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.

December 22, 2014

/s/ Anthony M. Lougee

Anthony M. Lougee
Chief Accounting 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.]