

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended 10/31/96 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 22-1831409
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

P.O. Box 7528, Princeton, NJ 08543
(Address of principal executive offices) (Zip Code)

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

(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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date. Common Stock (\$1.00 par value): As of December 6, 1996, there were 3,244,605 shares

PART 1. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Dataram Corporation And Subsidiary
Consolidated Balance Sheets
October 31, 1996 and April 30, 1996

(Unaudited) (Audited)

October 31, 1996 April 30, 1996

Assets

Current Assets:

Cash and cash equivalents	\$ 7,736,429	\$ 8,482,447
Trade receivables, less allowance for doubtful accounts and sales returns of \$760,000 at October 31, 1996 and \$800,000 at April 30, 1996	9,350,372	12,077,714
Inventories	2,204,851	2,311,897
Other current assets	460,746	862,709

Total current assets	19,752,398	23,734,767
Property and equipment, at cost:		
Land	875,000	875,000
Machinery and equipment	6,338,342	6,190,426
	<u>7,213,342</u>	<u>7,065,426</u>
Less: accumulated depreciation and amortization	5,217,026	4,867,226
Net property and equipment	1,996,316	2,198,200
Other assets	5,730	5,730
	<u>\$ 21,754,444</u>	<u>\$ 25,938,697</u>

October 31, 1996 April 30, 1996

Liabilities and Stockholders' Equity

Current liabilities:		
Accounts payable	\$ 2,950,174	\$ 5,909,262
Accrued liabilities	1,191,352	1,022,404
Income taxes payable	177,169	0
Total current liabilities	<u>4,318,695</u>	<u>6,931,666</u>
Deferred income taxes	929,000	929,000
Stockholders' Equity:		
Common stock, par value \$1.00 per share.		
Authorized 18,000,000 shares; issued		
3,298,405 at October 31, 1996		
and 3,824,305 at April 30, 1996	3,298,405	3,824,305
Additional paid-in capital	2,756,889	3,425,142
Retained earnings	10,451,455	10,828,584
Total stockholders' equity	<u>16,506,749</u>	<u>18,078,031</u>
	<u>\$ 21,754,444</u>	<u>\$ 25,938,697</u>

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiary
Consolidated Statements of Earnings
Three and Six Months Ended October 31, 1996 and 1995
(Unaudited)

<TABLE>

	1996		1995	
	2nd Quarter	Six Months	2nd Quarter	Six Months
<S>	<C>	<C>	<C>	<C>
Revenues	\$ 17,167,956	\$ 34,616,246	\$ 32,331,119	\$ 57,215,866
Costs and expenses:				
Cost of sales	13,332,847	27,220,820	28,925,556	50,779,451
Engineering and development	249,408	479,090	453,351	888,314
Selling, general and administrative	2,012,622	3,846,374	1,743,759	3,434,804
	<u>15,594,877</u>	<u>31,546,284</u>	<u>31,222,666</u>	<u>55,102,569</u>
Earnings from operations	1,573,079	3,069,962	1,208,453	2,113,297
Other income (expense), net				
Other income, net	16,607	16,607	0	0

Interest income	59,721	128,289	0	0
Interest expense	0	0	(38,638)	(57,169)
	<u>76,328</u>	<u>144,896</u>	<u>(38,638)</u>	<u>(57,169)</u>
Earnings before income taxes	1,649,407	3,214,858	1,169,815	2,056,128
Income tax expense	635,000	1,236,000	462,000	811,000
Net earnings	<u>\$ 1,014,407</u>	<u>\$ 1,978,858</u>	<u>\$ 707,815</u>	<u>\$ 1,245,128</u>
Net earnings per share of common stock				
Primary	<u>\$.30</u>	<u>\$.56</u>	<u>\$.18</u>	<u>\$.32</u>
Fully Diluted	<u>\$.30</u>	<u>\$.55</u>	<u>\$.18</u>	<u>\$.32</u>

Weighted average number of common shares outstanding				
Primary	3,391,312	3,554,602	3,883,626	3,814,900
Fully Diluted	<u>3,422,084</u>	<u>3,593,519</u>	<u>3,900,168</u>	<u>3,886,556</u>

</TABLE>

Dataram Corporation and Subsidiary
Consolidated Statements of Cash Flows
Six Months Ended October 31, 1996 and 1995
(Unaudited)

	1996	1995
Cash flows from operating activities:		
Net earnings	\$ 1,978,858	\$ 1,245,128
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	349,800	333,641
Bad debt expense	191,283	143,771
Changes in assets and liabilities:		
Decrease (increase) in trade receivables	2,536,059	(4,617,568)
Decrease (increase) in inventories	107,046	(4,866,402)
Decrease in other current assets	401,963	537,769
Decrease in other assets	0	9,346
Increase (decrease) in accounts payable	(2,959,089)	5,397,135
Increase (decrease) in accrued liabilities	168,948	(942,528)
Increase in income taxes payable	177,169	0
Increase (decrease) in deferred income taxes	0	514,000
Net cash provided by (used in) operating activities	<u>2,952,037</u>	<u>(2,245,708)</u>
Cash flows from investing activities:		
Purchase of property and equipment	(147,916)	(154,247)
Net cash used in investing activities	<u>(147,916)</u>	<u>(154,247)</u>
Cash flows from financing activities:		
Proceeds from sale of common shares under stock option plan	21,400	238,000
Purchase of and retirement of common shares	(3,571,539)	0

Increase in long-term debt	0	1,900,000
Net cash provided by (used in) financing activities	(3,550,139)	2,138,000
Net increase (decrease) in cash and cash equivalents	(746,018)	(261,955)
Cash and cash equivalents at beginning of year	8,482,447	721,811
Cash and cash equivalents at end of period	\$ 7,736,429	\$ 459,856

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 26,583	\$ 57,169
Income taxes	\$ 560,000	\$ 402,000

See accompanying notes to consolidated financial statements.

Dataram Corporation and Subsidiary

Notes to Consolidated Financial Statements

October 31, 1996 and April 30, 1996

(1) Cash and cash equivalents consist of unrestricted cash, bankers acceptances, commercial paper and other short term investments. All investments are convertible to cash within a period of approximately thirty days or less.

(2) Inventories consist of the following categories:

	10/31/96	4/30/96
Raw Materials	\$ 1,526,000	\$ 1,435,000
Work In Process	171,000	45,000
Finished Goods	508,000	832,000
	<u>\$ 2,205,000</u>	<u>\$ 2,312,000</u>

(3) The Company has an agreement with a bank which provides for a total unsecured line of credit of \$11,000,000 with interest at no higher than one-half percent below the bank's base commercial lending rate. Borrowings under the line of credit are at the convenience of Company management and may be repaid at any time. The line of credit agreement expires in October, 1997, unless otherwise amended or extended.

(4) In 1982, the Company adopted an incentive stock option plan. As of October 31, 1996, no further options may be granted under the plan and options to purchase 6,000 shares were exercised in fiscal 1997 at an exercise price of \$3.57 per share and no further options remain outstanding.

In September 1992, an incentive and nonstatutory stock option plan was adopted by the shareholders which provides for the granting of up to 950,000 shares of common stock to key employees. As of October 31, 1996, options to purchase 479,000 shares at prices ranging from \$5.125 to \$7.125 per share were outstanding. As of October 31, 1996 options to purchase 32,000 shares had been exercised and options to purchase 196,400 shares were exercisable.

In November 1992 and March 1993, the Company granted to three nonemployee directors of the Company and the Company's outside general counsel five year options to acquire a total of 120,000 shares of the Company's common stock at an exercise price of \$11.25 per share. On September 10, 1996, the Company granted to a fourth non-employee

director five year options to acquire 30,000 shares at an exercise price of \$6.9375. As of October 31, 1996, none of these options had been exercised and options to purchase 112,500 shares were exercisable.

(5) In June of 1996, the Company announced an open market repurchase plan providing for the repurchase of up to 250,000 shares of the Company's common stock. In July of 1996, the plan was amended to provide for the repurchase of up to 500,000 shares of the Company's common stock. On September 10, 1996 the Board of Directors authorized the repurchase of an additional 300,000 shares. As of October 31, 1996 a total of 531,900 shares had been repurchased at a total cost of \$3,572,000.

(6) Information furnished reflects all adjustments which are, in the opinion of management, necessary to a fair presentation of the results of this interim statement.

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

Liquidity and Capital Resources

As of October 31, 1996, working capital amounted to \$15.4 million reflecting a current ratio of 4.6 compared to working capital of \$16.8 million and a current ratio of 3.4 as of April 30, 1996.

The Company's financial condition remains strong. The Company has an \$11.0 million unsecured line of credit with a bank which expires in October 1997. At the end of the quarter there was no amount outstanding under the line of credit. With its current working capital balance and the line of credit, management believes that it will be able to support its growth and other capital needs for the foreseeable future.

Results of Operations

Revenues for the three month period ending October 31, 1996 were \$17,168,000 compared to revenues of \$34,616,000 for the comparable prior year period. Fiscal 1997 six month revenues totaled \$34,616,000 versus six month revenues of \$57,216,000 for the prior fiscal year. The decline in revenues was the result of declining average selling prices for the Company's products reflecting an eighty percent decrease in the price of dynamic random access memory chips (DRAMs) which are the primary raw material in memory boards. As a result of competitive conditions in the memory board marketplace, the Company passed these cost savings through to our customers. Increased unit volume partially offset the reduction in selling prices. Total megabytes shipped have increased by approximately 115% and 110% in this year's second quarter and six months, respectively versus the same periods last year.

Cost of sales for the second quarter and six months of fiscal 1997 were 78% and 79%, respectively of revenues versus 89% for both of the same prior year periods. The increase in operating margins is the result of increased unit volume which created significant economies of scale, combined with aggressive purchasing and materials management. Prices for the four and sixteen megabit DRAM continued to decline during the second quarter. To minimize the impact of the changes in raw material values, the Company has maintained tight control over inventory levels, while still meeting customer delivery requirements. The price of DRAMS has continued to decline and it is uncertain as to when prices will stabilize.

Engineering and development costs in fiscal 1997's first quarter and six months were \$249,000 and 479,000, respectively versus \$453,000 and \$888,000 for the same prior year periods. The decrease in cost was due to modest reductions in staff, and an overall control of cost primarily associated with lower product design costs of today's simplified memory boards. The Company intends to maintain its commitment to timely introduction of new memory products as new workstations and computers are introduced.

Selling, general and administrative costs in this year's second quarter increased to 12% of revenues from 6% for the same prior year

period. Three month total expenditures increased by \$269,000 from the comparable prior year period. This increase is largely attributable to certain planned marketing and promotional expenditures, as well as certain legal expenses incurred related to a Complaint filed by Sun Microsystems, Inc. Six month selling, general and administrative costs increased by \$412,000 in fiscal 1997 versus fiscal 1996. The Company has strategically added to its sales department this year to accelerate our ability to service new and existing customers.

Other income (expense), net for the second quarter and six months of fiscal 1997 consisted primarily of interest income on short term investments. Prior year other income (expense) consisted of interest

PART II: OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On October 15, 1996, Dataram was served with a Complaint filed against it by Sun Microsystems, Inc. ("Sun") in the United States District Court for the Northern District of California. This Complaint claims infringement by Dataram of five patents issued to Sun which enable the use of single in-line memory modules in the memory systems for certain Sun workstations. Sun seeks to enjoin Dataram from infringing the patents, and seeks damages and attorney's fees. Dataram has answered the Complaint, asserting that the patents which were issued to Sun are invalid or not infringed by Dataram products. Dataram is seeking payment of its attorney fees in this action from Sun. Also, Dataram has filed counterclaims charging Sun with anti-trust violations, unfair competition and product disparagement.

ITEM 5. EXHIBITS AND REPORTS ON FORM 8-K

A. Exhibits

27 (a). Financial Data Schedule

99 (a). Press Release reporting results of Second Quarter, Fiscal Year 1997.

99 (b). Press Release reporting the Sun Microsystems, Inc. Complaint.

B. Reports on Form 8-K

No reports on Form 8-K have been filed during the current quarter.

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

Dec. 9, 1996 MARK E. MADDOCKS
Date: _____ By: _____
Mark E. Maddocks
Vice President, Finance
(Principal Financial Officer)

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FOR IMMEDIATE RELEASE CONTACT: Mark Maddocks
Vice President, Finance
Telephone: (609) 799-0071

DATARAM DISCLOSES COMPLAINT

PRINCETON, NJ, October 15, 1996 Dataram Corporation (AMEX: DTM)

Dataram Corporation announced today that it has been served with a Complaint filed by Sun Microsystems, Inc. alleging that certain of Dataram's memory boards violate five patents issued to Sun. Sun's marketing department has made such allegations in the past against Dataram and other independent memory board manufacturers. Dataram continues to believe it has a right to manufacture and sell its Sun compatible memory boards, none of which violate any intellectual property rights of Sun Microsystems.

Robert Tarantino, President and Chief Executive Officer of Dataram Corporation, said, "It is not our intention to submit to what we believe is a heavy handed marketing approach being utilized by Sun. It is most unfortunate that Sun Microsystems, a company which over the years has deserved the reputation of being an innovator in its field, has chosen to compete in the courtroom rather than in the marketplace."

Mr. Tarantino noted that three of the five patents do not even involve Dataram memory products. "Sun is well aware that these patents are useless in the production of quality memory boards."

"The remaining two patents are invalid as they merely restate prior art in the field, including Dataram's own prior art. Dataram believes its products do not infringe any valid Sun Microsystems patent. Dataram has been in the business of manufacturing and selling memory systems for thirty years and during that time has earned the respect of its customers and competitors for the quality of its products and the integrity of its organization. The Company routinely reviews filed patents before going to market, and in its entire history has never before been accused of violating another company's intellectual property rights."

According to Mr. Tarantino, as a result of the step taken by Sun, Dataram will be compelled to file counterclaims seeking appropriate redress from Sun for its current program of "marketing" through product disparagement, its abusive misuse of its patent portfolio and its interference with Dataram's existing and potential customer relationships.

Dataram Corporation is a manufacturer and marketer of quality memory boards for workstations, servers, and personal computers.

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