SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended..August 31, 2012
OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from.........................to............................

AURA SYSTEMS, INC.
(Exact name of Registrant as specified in its charter)

Delaware	**95-4106894**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1310 E. Grand Ave.
El Segundo, California 90245
(Address of principal executive offices)

Registrant's telephone number, including area code: **(310) 643-5300**

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 [X] NO [ ]

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES [X] NO [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated file, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Act).

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-accelerated filer ☐	Smaller Reporting Company [x]

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes☐ No [x]

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes☐ No☐

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date.

Class	Outstanding September 30, 2012
Common Stock, par value $0.0001 per share	72,699,610 shares

AURA SYSTEMS, INC.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS AURA SYSTEMS, INC.
CONDENSED BALANCE SHEETS
(Unaudited)

	August 31, 2012	February 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,375	$ 6,260
Accounts receivable, net of allowance for doubtful accounts of $50,000 and $60,000 at August 31, 2012 and February 29, 2012, respectively	118,183	794,704
Inventory - current	1,000,000	1,000,000
Other current assets	556,972	535,768
Total current assets	1,714,530	2,336,732
Property, plant, and equipment, net	107,611	198,138
Inventory, non-current, net of allowance for obsolete inventory of $1,420,998 and $1,563,066 at August 31, 2012 and February 29, 2012, respectively	1,558,126	1,604,000
Total assets	$ 3,380,267	$ 4,138,870
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Bank overdraft	$ -	$ 16,068
Accounts payable	927,235	770,507
Accrued expenses	1,263,921	1,019,959
Customer advances	212,771	57,211
Notes payable	455,000	150,000
Convertible notes payable, net of discount	810,594	1,064,644
Notes payable and accrued interest- related party	16,016,834	12,562,743
Total current liabilities	19,686,355	15,641,132
Convertible note payable, net of discount	-	96,786
Convertible promissory note Payable, net of discount	692,984	-
Total liabilities	20,379,339	15,737,918
Commitments and contingencies		
Stockholders' deficit :		
Common stock, $0.0001par value; 150,000,000 shares authorized 72,699,610 and 71,942,669 issued and outstanding at August 31, 2012 and February 29, 2012	7,270	7,194
Additional paid-in capital	394,831,151	393,801,622
Accumulated deficit	(411,837,493)	(405,407,864)
Total stockholders' deficit	(16,999,072)	(11,599,048)
Total liabilities and stockholders' deficit	$ 3,380,267	$ 4,138,870

See accompanying notes to these Unaudited condensed financial statements.

AURA SYSTEMS, INC.
CONDENSED STATEMENTS OF OPERATIONS
FOR THE THREE AND SIX MONTHS ENDED AUGUST 31, 2012 AND 2011
(Unaudited)

	Three Months		Six Months	
	2012	**2011**	**2012**	**2011**
Net Revenues	$ 303,904	$ 615,599	$ 1,071,472	$ 1,566,770
Cost of goods sold	106,915	333,168	460,026	656,146
Gross Profit	196,989	282,431	611,446	910,624
Expenses				
Engineering, research and development expenses	380,201	382,371	696,692	655,780
Selling, general and administrative expenses	2,227,156	5,697,564	4,527,458	7,859,639
Total costs and expenses	2,607,357	6,079,935	5,224,150	8,515,419
Loss from operations	(2,410,368)	(5,797,504)	(4,612,704)	(7,604,795)
Other (income) and expense				
Interest expense, net	944,198	243,483	1,825,095	503,986
(Gain) loss on settlement of debt	-	(241,619)	-	(266,754)
Other (income) expense, net	(6,666)	900	(8,166)	(14,952)
Total other (income) expense	937,532	2,764	1,816,929	222,280
Net Loss	$ (3,347,900)	$ (5,800,268)	$ (6,429,633)	$ (7,827,075)
Total basic and diluted loss per share	$ (0.05)	$ (0.09)	$ (.09)	$ (0.13)
Weighted average shares used to compute basic and diluted income (loss) per share	72,345,446	64,196,117	72,199,221	62,699,227

*Weighted average number of shares used to compute basic and diluted loss per share is the same since the effect of the dilutive securities is anti-dilutive.

See accompanying notes to these Unaudited condensed financial statements.

AURA SYSTEMS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED AUGUST 31, 2012 AND 2011
(Unaudited)

	2012	2011
Cash flow from operating activities:		
Net Loss	$(6,429,633)	$(7,827,075)
Adjustments to reconcile Net loss to net cash used in operating activities		
Depreciation Expense	90,527	92,176
Bad debt expense	(4,227)	-
Amortization of debt discount	1,196,025	-
(Gain) Loss on settlement of debt	-	(266,754)
Stock issued for services	266,000	-
Provision for inventory obsolescence	(142,068)	(116,720)
Amortization of prepaid shares	268,206	-
Fair market value of stock options granted	131,707	3,512,127
(Increase) decrease in:		
Accounts receivable	680,748	(185,622)
Inventory	187,942	301,457
Other current assets and deposit	(289,410)	133,891
Increase (decrease) in:		
Accounts payable, customer deposit and accrued expenses	1,151,548	1,326,985
Net cash used in operations	(2,892,635)	(3,029,535)
Financing activities:		
Issuance of common stock	152,000	1,221,020
Proceeds from notes payable	1,455,000	312,000
Payments on notes payable	(1,531,250)	(30,000)
Proceeds from notes payable-related party, net	2,850,000	1,475,000
Net cash provided by financing activities:	2,925,750	2,978,020
Net increase(decrease) in cash & cash equivalents	33,115	(51,515)
Cash and cash equivalents at beginning of period	6,260	104,815
Cash and cash equivalents at end of period	$39,375	$53,300
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	-	$ 8,761
Income taxes	-	-

See accompanying notes to these Unaudited condensed financial statements.

AURA SYSTEMS, INC.
NOTES TO CONDENSED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - ACCOUNTING POLICIES

Accounting principles

In the opinion of management, the accompanying balance sheets and related interim statements of income and comprehensive income, and cash flows include all adjustments, consisting only of normal recurring items, necessary for their fair presentation in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). Interim results are not necessarily indicative of results for a full year. The information included in this Form 10-Q should be read in conjunction with information included in the Company's 2012 Form 10-K filed on May 29, 2012 with the U.S. Securities and Exchange Commission.

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Recently Issued Accounting Pronouncements

In December 2011, the FASB issued ASU No. 2011-11, Disclosures about Offsetting Assets and Liabilities ("ASU 2011-11"), to improve reporting and transparency of offsetting (netting) assets and liabilities and the related affects on the financial statements. ASU 2011-11 is effective for fiscal years and interim periods within those years beginning after January 1, 2013. All disclosures provided by those amendments are required to be provided retrospectively for all comparative periods presented. We are currently evaluating the impact of this new ASU.

On June 16, 2011, the FASB issued ASU No. 2011-05, "Comprehensive Income (Topic 220): Presentation of Comprehensive Income." This ASU eliminates the current option to report other comprehensive income and its components in the statement of changes in equity. An entity can elect to present items of net income and other comprehensive income in one continuous statement or in two separate, but consecutive, statements. ASU No. 2011-05 also requires reclassifications of items out of accumulated other comprehensive income to net income to be measured and presented by income statement line item in both the statement where net income is presented and the statement where other comprehensive income is presented. However, on December 23, 2011, the FASB issued ASU No. 2011-12, "Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05" to defer this new requirement. There was no material impact on our financial statements upon adoption.

Reclassifications

Certain reclassifications have been made to the comparative financial statements to conform to the current period presentation.

NOTE 2 – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the six months ended August 31, 2012 and August 31, 2011, the Company incurred losses of $6,429,633 and $7,827,075, respectively and had negative cash flows from operating activities of $2,892,635 and $3,029,535, respectively.

If the Company is unable to generate profits and is unable to continue to obtain financing for its working capital requirements, it may have to curtail its business sharply or cease business altogether.

Substantial additional capital resources will be required to fund continuing expenditures related to our research, development, manufacturing and business development activities. The Company's continuation as a going concern is dependent upon its ability to generate sufficient cash flow to meet its obligations on a timely basis, to retain its current financing, to obtain additional financing, and ultimately to attain profitability.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America, which contemplate continuation of the Company as a going concern. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that could result from the outcome of this uncertainty.

During the next twelve months we intend to continue to expand our AuraGen/Viper business both domestically and internationally. There are four major components necessary to execute a significantly expanding business; (i) augmentation of management and staff, (ii) purchase orders, (iii) facilities and equipment, and (iv) working capital. We plan to add senior quality assurance and quality control staff as well as a number of mechanical and electrical engineers, a number of technicians, and a number of test engineers. We had planned to take these steps in the current fiscal year, but a lack of resources prevented us from doing so. We anticipate being able to fund these additions in the upcoming fiscal year.

NOTE 3 – INVENTORIES

Inventories, stated at the lower of cost (first in first out), or market consisted of the following:

	August 31, 2012	February 29, 2012
Raw materials	$2,021,321	$1,812,523
Finished goods	1,957,803	2,354,543
	3,979,124	4,167,066
Reserve for potential product obsolescence	(1,321,543)	(1,460,683)
Discount on long term inventory	(99,455)	(102,383)
	2,558,126	2,604,000
Non-current portion	(1,558,126)	(1,604,000)
Current portion	$1,000,000	$1,000,000

We assessed the net realize-ability and the related potential obsolescence of inventory. In accordance with this assessment, management has recorded a reserve of $1,321,543 and $1,460,683 as of August 31, 2012 and February 29, 2012, respectively. Management has also recorded a discount on long term inventory of $99,455 and $102,383 as of August 31, 2012 and February 29, 2012, respectively.

NOTE 4 – OTHER CURRENT ASSETS

Other assets of $556,972 and $535,768 are primarily comprised short term deposits of $157,958 and $353,344 as of August 31, 2012 and February 29, 2012.

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment consisted of the following:

	August 31, 2012	February 29, 2012
Machinery and equipment	$ 964,111	$ 964,111
Furniture and fixtures	163,302	163,302
Leasehold improvements	485,080	485,080
	1,612,493	1,612,493
Less accumulated depreciation	(1,504,882)	(1,414,355)
Property, plant and equipment, net	$ 107,611	$ 198,138

Depreciation expense was $90,527 and $92,176 for the six months ended August 31, 2012 and August 31, 2011, respectively.

NOTE 6 – NOTES PAYABLE

Notes payable consisted of the following:

	August 31, 2012	February 29, 2012
Demand notes payable, at 10%	$ 455,000	$ 150,000
Convertible Promissory Note dated August 10, 2012, due August 10, 2017, convertible into shares of our common stock at a price of $0.76 per share. The notes carry an interest rate of 7% with interest only payments due on the 10th of each month with the principal payment due on the maturity date.	692,984	-
Senior secured convertible note dated September 23, 2011, due March 23, 2013, with 12 monthly payments commencing April 23, 2012 of $306,250 per month. The notes have a stated interest rate of 0%, with prepaid interest of $175,000. Balance net of Beneficial Conversion Feature	810,594	1,161,430
	1,958,578	1,311,430
Less: Current portion	$ 1,265,594	$ 1,214,644
Long-term portion	$ 692,984	$ 96,786

CONVERTIBLE DEBT

On September 23, 2011, Aura Systems, Inc. entered into purchase agreements to sell convertible notes with a total principal value of $3,675,000 and warrants to purchase shares of common stock. The notes have a 1.5 year maturity date and are convertible into shares of common stock at the initial conversion price of $0.75 per share. The warrants entitle the investors to acquire 4,900,000 and 490,000 shares and have an initial exercise price of $1 and $0.75 per share, respectively, and have a 5 year term. The proceeds of Convertible note were assigned between warrants and convertible note per ASC 470-20. The company recorded $175,000 as a discount (prepaid interest), $1,006,482 as capitalized financing cost and a discount of $1,790,482 on shares to be issued upon conversion of the note into equity. This discount (prepaid interest), capitalized finance cost and discount will be amortized over the life of the note**.**

CONVERTIBLE PROMISSORY NOTE

At August 31, 2012 and February 29, 2012, the other convertible promissory note payable amounted to $692,984 and Nil, respectively, net of discounts of $307,016 and Nil, respectively. The convertible note (the "Note") bears interest at 7% per annum, and is convertible into common stock of the Company at $0.76 per share (as well as variable conversion rates as described below). The note is due on August 10, 2017 and is unsecured.

7% Convertible Promissory Note:

On August 10, 2012 the Company entered into an agreement with the individual (the "holder") for the sale of $1,000,000 of unsecured Convertible Promissory Note (the "Note") to the holder. The Convertible Promissory Note balance together with all accrued interest thereon shall be due and payable on August 10, 2017 and the annual interest rate is 7% per annum and are due to be repaid 5 years from the closing date. The Note holder will receive interest on the unpaid principal amount payable monthly in arrears on the tenth day of each calendar month commencing September 10, 2012. Interest shall be computed on the actual number of days elapsed over a 360-day year. The Holder has the right from and after the Date of Issuance, and until any time until the Convertible promissory note is fully paid, to convert any outstanding and unpaid principal portion of the Convertible promissory note into shares of Common.

The Convertible Note has a variable conversion price. If, at any time while the Note remains outstanding, the Company issues or sells any Convertible Securities and the lowest price per share for which one share of Common Stock is issuable upon the conversion, exercise or exchange thereof is less than the then Conversion Price of the Note (such lower price, the "Dilutive Price"), then the Conversion Price of this Note shall be adjusted to reflect such Dilutive Price. Such adjustment shall be made upon the issuance or sale of the Convertible Security bearing a dilutive price. In the event of default for the Note, the amount of principal and interest not paid when due becomes immediately due and payable.

The Company has valued the derivative liability for the convertible promissory note using the Black – Sholes model as of August 10, 2012 and August 31, 2012.

As of August 31, 2012 the fair value of the conversion features subject to derivative accounting was $322,627. The value of the conversion feature as of August 31, 2012 was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.59%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 71.33%; and (4) expected life of the conversion features of 5 year.

NOTE 7 - ACCRUED EXPENSES

Accrued expenses consisted of the following:

	August 31, 2012	February 29, 2012
Accrued payroll and related expenses	$1,244,140	$ 993,652
Accrued interest	7,257	82
Other	12,524	26,225
Total	$1,263,921	$ 1,019,959

Accrued payroll and related expenses consisted primarily of salaries accrued but not paid to certain employees. As of August 31, 2012 and February 29, 2012, these amounts total $758,560 and $524,989, respectively. Also included in this amount is accrued vacation expense of $381,835 and $306,582 at August 31, 2012 and February 29, 2012, respectively.

NOTE 8–SHAREHOLDERS' EQUITY

Common Stock

During the six months ended August 31, 2012, we issued 350,000 shares of Common Stock for services rendered valued at $266,000, 200,000 shares of common stock for consideration of $152,000, and 206,941 shares upon conversion of $157,276 of notes payable and accrued interest.

During the six months ended August 31, 2011, we issued 2,150,849 shares of Common Stock for cash consideration of $1,221,020. We also issued 2,227,612 shares of Common Stock for the conversion of $1,513,841 of notes payable and accrued interest, 500,000 shares of Common Stock for services to be rendered in the amount of $375,000, 908,593 shares of Common Stock in satisfaction of $599,492 of accounts payable, and 3,042,199 shares of Common Stock in satisfaction of accrued and unpaid compensation.

Employee Stock Options

During the six months ended August 31, 2012, the Company granted 564,000 options to certain employees. These options vest over three years, have an exercise price of $0.75, and have a five year life. The grant date fair value of these options amounted to $146,893 which was calculated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return of 0.69%, volatility of 73.3%, a dividend yield of 0%, and an expected life of 5 years.

In September, 2006, our Board of Directors adopted the 2006 Employee Stock Option Plan. Activity in this plan is as follows:

	2006 Plan		
	Weighted-Average Exercise Price	Aggregate Intrinsic Value	Number of Options
Outstanding, February 29, 2012	$0.75-$1.00	$0.00	6,268,500
Cancelled	$0.75		(313,000)
Granted	$0.75		564,000
Outstanding, August 31, 2012	$0.75-$1.00	$0.00	6,519,500

The exercise prices for the options outstanding at August 31, 2012, and information relating to these options is as follows:

Options Outstanding				Exercisable Options		
Range of Exercise Price	Number	Weighted Average Remaining Life	Weighted Average Exercise Price	Weighted Average Remaining Life	Number	Weighted Average Exercise Price
$0.75-$1.00	6,519,500	2.78 years	$ 0.80	2.29 years	5,027,168	$ 0.77

Warrants

Activity in issued and outstanding warrants is as follows:

	Number of Shares	Exercise Prices
Outstanding, February 29, 2012	31,009,738	$0.75-$4.00
Granted	406,941	$1.00
Expired	(523,595)	$4.00
Outstanding, August 31, 2012	30,893,084	$0.75-$4.00

The exercise prices for the warrants outstanding at August 31, 2012, and information relating to these warrants is as follows:

Range of Exercise Prices	Stock Warrants Outstanding	Stock Warrants Exercisable	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price of Warrants Outstanding	Weighted-Average Exercise Price of Warrants Exercisable	Intrinsic Value
$1.00	406,941	406,941	59 months	$1.00	$1.00	$0.00
$0.75-$1.00	6,225,000	6,225,000	49 months	$0.99	$0.99	$0.00
$1.00	16,722,787	16,722,787	48 months	$1.00	$1.00	$0.00
$1.50	155,000	155,000	43 months	$1.50	$1.50	$0.00
$0.75-1.50	1,109,198	1,109,198	40 months	$1.17	$1.17	$0.00
$1.50	156,000	156,000	36 months	$1.50	$1.50	$0.00
$1.50	704,000	704,000	35 months	$1.50	$1.50	$0.00
$1.50	350,642	350,642	32 months	$1.50	$1.50	$0.00
$0.75-$2.00	58,000	58,000	28 months	$1.78	$1.78	$0.00
$2.00	725,721	725,721	25 months	$2.00	$2.00	$0.00
$0.75-2.00	3,650,000	3,650,000	22 months	$1.03	$1.03	$0.00
$3.00	170,000	170,000	15 months	$3.00	$3.00	$0.00
$3.00-$4.00	459,795	495,795	1 months	$3.46	$3.46	$0.00
	30,893,084	30,893,084				

NOTE 9 –INCOME TAXES

Our effective tax rates were approximately 0.0% for the six months ended August 31, 2012 and 2011. Our effective tax rate was lower than the U.S. federal statutory rate primarily due to the fact that we record a full valuation allowance against our deferred tax assets, which is primarily comprised of net operating losses.

NOTE 10 - SEGMENT INFORMATION

We are a United States based company providing advanced technology products to various industries. The principal markets for our products are North America, Europe, and Asia. All of our operating long-lived assets are located in the United States. We operate in one segment.

Total net revenues from customer geographical segments are as follows for the six months ended August 31, 2012 and 2011:

	2012	2011
United States	$ 753,315	$ 1,073,437
Canada	31,366	393,554
Europe	63,316	52,524
Asia	187,031	29,487
Other	36,444	17,768
Total	$ 1,071,472	$ 1,566,770

NOTE 11 – SIGNIFICANT CUSTOMERS

Concentration Risk

In the six months ended August 31, 2012, we sold AuraGen related products to four significant customers whose sales comprised 25%, 15%, 8% and 8% of net sales, respectively. Net accounts receivable from these customers at August 31, 2012 were $50,242, $0, $11,227 and $0 respectively. These customers are not related to or affiliated with us. In the six months ended August 31, 2011, we sold AuraGen related products to three significant customers whose sales comprised 53.5%, 14.7%, and 7.9% of net sales, respectively. Net accounts receivable from these customers were $508,718, $140,276 and $37,500, respectively. These customers are not related to or affiliated with us.

NOTE 12 – RELATED PARTIES TRANSACTIONS

At August 31, 2012 the balance consists of $13,275,000 of unsecured notes payable plus accrued interest of $2,741,834 to a member of our Board of Directors, payable on demand, bearing interest at a rate of 10% per annum. The notes are subordinated to the Convertible Debt we entered into on September 23, 2011. During the six months ended August 31, 2012 and August 31, 2011, interest amounting to $604,091 and $459,417 respectively, was incurred on these notes.

During the six months period ended August 31, 2012, Aura Systems made advances for legal fees of $170,000 to a law firm of a relative of a major shareholder of the Company.

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

Forward Looking Statements

This Report contains forward-looking statements within the meaning of the federal securities laws. Statements other than statements of historical fact included in this Report, including the statements under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations," regarding future events or prospects are forward-looking statements. The words "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans" "would "should," "may," or other similar expressions in this Report, as well as other statements regarding matters that are not historical fact, constitute forward-looking statements. We caution investors that any forward-looking statements presented in this Report are based on the beliefs of, assumptions made by, and information currently available to, us. Such statements are based on assumptions and the actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results may differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on forward-looking statements to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following:

- Our ability to generate positive cash flow from operations;
- Our ability to obtain additional financing to fund our operations;
- Our business development and operating development; and
- Our expectations of growth in demand for our products.

For further information regarding these and other risks and uncertainties, we refer you to Part I, Item 1A of our Form 10-K for the fiscal year ended February 29, 2012.

We do not intend to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise except to the extent required by law. You should interpret all subsequent written or oral forward-looking statements attributable to us or persons acting on our behalf as being expressly qualified by the cautionary statements in this Report. As a result, you should not place undue reliance on these forward-looking statements.

Overview

We design, assemble and sell the AuraGen®, our patented mobile power generator that uses a prime mover such as the engine of a vehicle to generate power. The AuraGen® delivers on-location, plug-in electricity for any end use, including industrial, commercial, recreational and military applications. We began commercializing the AuraGen® in late 1999 and sold our first commercial units in late 2000 and early 2001. To date, AuraGen® units have been sold in numerous industries, including recreational, utilities, telecommunications, emergency/rescue, public works, catering, oil and gas, transportation, government and the military.

We have not yet achieved a level of AuraGen® sales sufficient to generate positive cash flow. Accordingly, we have depended on repeated infusions of cash in order to maintain liquidity as we have sought to develop sales.

Our financial statements included in this report have been prepared on the assumption that we will continue as a going concern, which contemplates the realization of assets and satisfaction of liabilities in the normal course of business. However, as a result of our losses from operations, there is substantial doubt about our ability to continue as a going concern. Our independent auditors, in their report on the Company's financial statements for the year ended February 29, 2012 expressed substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amount and classification of liabilities that may result from our possible inability to continue as a going concern.

Our ability to continue as a going concern is dependent upon the successful achievement of profitable operations, and the ability to generate sufficient cash from operations and obtain financing resources to meet our obligations. There is no assurance that such efforts will be successful.

Our current level of sales reflects our efforts to introduce a new product into the marketplace. Until recently, many purchases of the product were for evaluation purposes. Recently we started to receive repeat orders for larger quantities as different organizations are integrating our products into their vehicles. We seek to achieve profitable operations by obtaining market acceptance of the AuraGen® as a competitive - if not superior - product providing mobile power anywhere anytime. There can be no assurance that this success will be achieved.

Critical Accounting Policies and Estimates

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of financial statements requires management to make estimates and disclosures on the date of the financial statements. On an on-going basis, we evaluate our estimates, including, but not limited to, those related to revenue recognition. We use authoritative pronouncements, historical experience and other assumptions as the basis for making judgments. Actual results could differ from those estimates. We believe that the following critical accounting policies affect our more significant judgments and estimates in the preparation of our consolidated financial statements.

Revenue Recognition

We are required to make judgments based on historical experience and future expectations, as to the reliability of shipments made to our customers. These judgments are required to assess the propriety of the recognition of revenue based on Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition," and related guidance. Because sales are currently in limited volume and many sales are for evaluative purposes, we have not booked a general reserve for returns. We will consider an appropriate level of reserve for product returns when our sales increase to commercial levels.

Inventory Valuation and Classification

Inventories consist primarily of components and completed units for our AuraGen® product. Inventories are valued at the lower of cost (first-in, first-out) or market. Provision is made for estimated amounts of current inventories that will ultimately become obsolete due to changes in the product itself or vehicle engine types that go out of production. We are holding inventories in excess of what we expect to sell in the next fiscal year. The net inventories which are not expected to be realized within a 12-month period based on current sales forecasts have been reclassified as long term. Management believes that existing inventories can, and will, be sold in the future without significant costs to upgrade it to current models and that the valuation of the inventories, classified both as current and long-term assets, accurately reflects the realizable values of these assets. The AuraGen® product being sold currently is not technologically different from those in current use. Existing finished goods inventories can be upgraded to the current model with only a small amount of materials and manpower. We make these assessments based on the following factors: i) existing orders, ii) age of the inventory, iii) historical experience and iv) our expectations as to future sales. If expected sales volumes do not materialize, there would be a material impact on our financial statements.

Valuation of Long-Lived Assets

Long-lived assets, consisting primarily of property and equipment, and patents and trademarks, comprise a portion of our total assets. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying values August not be recoverable. Recoverability of assets is measured by a comparison of the carrying value of an asset to the future net cash flows expected to be generated by those assets. Net cash flows are estimated based on expectations as to the realize-ability of the asset. Factors that could trigger a review include significant changes in the manner of an asset's use or our overall strategy.

Specific asset categories are treated as follows:

Accounts Receivable: We record an allowance for doubtful accounts based on our expectation of collect-ability of current and past due accounts receivable.

Property, Plant and Equipment: We depreciate our property and equipment over various useful lives ranging from five to ten years. Adjustments are made as warranted when market conditions and values indicate that the current value of an asset is less than its net book value.

When we determine that an asset is impaired, we measure any such impairment by discounting an asset's realizable value to the present using a discount rate appropriate to the perceived risk in realizing such value. When we determine that an impaired asset has no foreseeable realizable value, we write such asset down to zero.

Results of Operations

Six months ended August 31, 2012 compared to six months ended August 31, 2011

Net revenues for the six months ended August 31, 2012 (the "Six months FY2013") decreased $495,298 to $1,071,472 from $1,566,770 in the six months ended August 31, 2011 (the "Six months FY2012"), a decrease of 32%. The decrease is primarily attributable to (i) the interruption of production due to the need to move and consolidate our two facilities in El Segundo, California into one facility which is now completed, and to a lessor degree to (ii)a decrease in sales to one ongoing customers.   has gone through a restructuring, and temporarily suspended placing orders with us, but has indicated they are going to resume purchases. Our customers typically order on an as needed basis and therefore our sales can fluctuate substantially between periods based on our customers' needs at a given time.

Cost of goods decreased $196,120 (30%) to $460,026 in the Six months FY2013 from $656,146 in the Six months FY2012. The decrease in cost of goods is a result of (i) higher margin product being shipped and (ii) the decrease in sales for the period.

Engineering, research and development expenses increased $40,912 (6%) to $696,692 in the Six months FY2013 from $655,780 in the Six months FY 2012. In the past, we have reduced our expenditures in this area due (i)our financial situation, and (ii) due to reduced efforts in developments of new configurations. With major new contracts and customers we now intend to increase our expenditures in this area in the near future.

Selling, general and administrative expense decreased $3,332,181 (42%) to $4,527,458 in the Six months FY2013 from $7,859,639 in the Six months FY2012. The decrease is primarily attributable to a decrease in non-cash charges of approximately $3,810,000 for stock option expense, partially offset by an increase in marketing expenses of approximately $264,500.

Net interest expense in the Six months FY2013 increased $1,321,109 (262%) to $1,825,095 from $503,986 in the Six months FY2013 as a result of our increased debt levels, primarily our 10% demand note payable to a member of our Board of Directors, and the non-cash amortization of the debt discount, warrant expense and beneficial conversion feature of $1,180,414 on the financing completed in the third quarter of FY2012 and the non-cash amortization of $15,611 of the debt discount on the convertible note entered into in August 2012.

Our net loss for the Six months FY2013 decreased $1,397,442 to $6,429,633 from $7,827,075 in the Six months FY2012, primarily as a result of the decrease in stock option expense of $3,810,066, partially offset by the increase in the interest expense noted above of $1,305,498. This net loss included $1,196,025 in amortization expenses described above.

Three months ended August 31, 2012 compared to three months ended August 31, 2011

Net revenues for the three months ended August 31, 2012 (the "Second Quarter FY2013") decreased $311,695 to $303,904 from $615,599 in the three months ended August 31, 2011 (the "Second Quarter FY2012"), a decrease of 51%. The decrease is primarily attributable to a decrease in sales to a single customer that has gone through a restructuring, but has now indicated they are going to resume purchases. These customers are ongoing customers, but do not order on a regular basis.

Cost of goods decreased $226,253 (68%) to $106,915 in the Second Quarter FY2013 from $333,168 in the Second Quarter FY2012. The decrease in cost of goods is primarily a result of the decrease in sales, combined with the differences in gross margins between the 8kW and 5kW systems.

Engineering, research and development expenses decreased $2,170 (.6%) to $380,201 in the Second Quarter FY2013 from $382,371 in the Second Quarter FY 2012. These expenses have decreased substantially in prior periods, but are expected to increase in future periods.

Selling, general and administrative expense decreased $3,470,408 (61%) to $2,227,156 in the Second Quarter FY2013 from $5,697,564 in the Second Quarter FY2012. The decrease is primarily attributable to non-cash charges of $3,467,945 for employee stock options in the prior year.

Net interest expense in the Second Quarter FY2013 increased $700,715 (288%) to $944,198 from $243,483 in the Second Quarter FY2012 as a result of our increased debt levels, primarily our 10% demand note payable to a member of our Board of Directors and the amortization of the debt discount, warrant expense and beneficial conversion feature of $590,207 on the financing completed in the third quarter of FY2012 and the non-cash amortization of $15,611 of the debt discount on the convertible note entered into in August 2012.

Our net loss for the Second Quarter FY2013 decreased $2,452,368 to $3,347,900 from $5,800,268 in the Second Quarter FY2012, primarily as a result of the decreased charges associated with the employee stock option plan partially offset by the increased interest expense noted above.

Liquidity and Capital Resources

We had cash of approximately $39,000 and $6,000 as of August 31, 2012, and February 29, 2012, respectively. We had a working capital deficit at August 31, 2012, and February 29, 2012 of $17,971,825 and $13,304,400, respectively. The working capital deficit includes notes payable and accrued interest to related parties of $16,016,834 and $12,562,743 as of August 31 and February 29, 2012, respectively. As of August 31, 2012, we had accounts receivable, net of allowance for doubtful accounts, of $118,183 compared to $794,704 as of February 29, 2012.

Net cash used in operations for the six months ended August 31, 2012, was $2,892,635, a decrease of $136,900 from the comparable period in the prior fiscal year. Net cash provided by financing activities during the six months ended August 31, 2012, was $2,925,750, resulting from net proceeds from notes payable of $2,773,750 and proceeds from the issuance of common stock of $152,000.

There were no acquisitions of property and equipment in the six months FY 2013 or the six months FY 2012.

Accrued expenses as of August 31, 2012 increased $243,962 to $1,263,921 from $1,019,959 as of February 29, 2012. Approximately $760,000 of accrued expenses is salaries accrued but unpaid to certain employees and ex-employees due to a lack of resources, and approximately $382,000 is accrued but unused vacation time earned by employees.

Net proceeds from the issuance of debt totaled $2,773,750 in the six months FY 2013, compared with $1,757,000 in the six months FY 2012. Debt proceeds of $2,850,000 in the six months of FY2013 were from a member of our Board of Directors, and debt repayments totaling $1,531,250 were made on the $3.5 million financing completed in the third quarter fiscal 2012. As of September 30, 2012, the total amount owing our board member is $14,125,000 plus accrued interest of approximately $2,875,000. The notes are subordinated to the Convertible Debt we entered into on September 23, 2011. If the Board member were to demand repayment, we do not currently have the resources to make the payment.

The Company had a deficit of $16,999,072 in shareholders' equity as of August 31, 2012, compared to $11,599,048 as of February 29, 2012. The deficit includes approximately $12.4 million of non-cash expenses resulting from charges for stock option and warrant expense for fiscal years 2008 through the first six months of fiscal year 2013.

Since 2002 substantially all of our revenues from operations have been derived from sales of the AuraGen®. The cash flow generated from our operations to date has not been sufficient to fund our working capital needs, and we cannot predict when operating cash flow will be sufficient to fund working capital needs.

In the past, in order to maintain liquidity we have relied upon external sources of financing, principally equity financing and private indebtedness. We have no bank line of credit and require additional debt or equity financing to fund ongoing operations. The issuance of additional shares of equity in connection with any such financing could dilute the interests of our existing stockholders, and such dilution could be substantial. If we cannot raise needed funds, we would also be forced to make further substantial reductions in our operating expenses, which could adversely affect our ability to implement our current business plan and ultimately our viability as a company.

Capital Transactions

During the six months ended August 31, 2012, we issued 350,000 shares of Common Stock for services rendered valued at $266,000, 200,000 shares of common stock for consideration of $152,000, and 206,941 shares upon conversion of $157,276 of notes payable and accrued interest.

During the quarter ended August 31, 2011, we issued 1,177,516 shares of Common Stock for cash consideration of $652,020, with 155,000 warrants attached with an exercise price of $1.50. We also issued 978,757 shares of Common Stock for the conversion of $646,450 of notes payable and accrued interest, 500,000 shares of Common Stock for services to be rendered in the amount of $375,000, 8,593 shares of Common Stock in satisfaction of $4,726 of accounts payable, and 579,115 shares of Common Stock in satisfaction of accrued and unpaid compensation.

Inventories

Inventories consist primarily of components and completed units of the Company's AuraGen® product.

Early in our AuraGen® program, we determined it was most cost-effective to outsource production of components and subassemblies to volume-oriented manufacturers, rather than produce these parts in house. As a result of this decision, and based on then anticipated sales, we purchased, prior to fiscal 2001, a substantial inventory of components at volume prices. Since sales did not meet such expectations, we have been selling product from this inventory for several years. Management has analyzed its inventories based on its current business plan, current potential orders for future delivery, and pending proposals with prospective customers and has determined that we do not expect to realize all of its inventories within the next year. The net inventories as of August 31 and February 29, 2012, which are not expected to be realized within a 12-month period have been reclassified as long term.

Most of our inventory consists of a variety of (i) metallic, mechanical components, and (ii) electrical components including metallic chassis to hold the assembled electrical systems. The vast majority of mechanical components are not aged and most of the electrical components are also not aged. The components that are aged are related to the prime mover/Generator interface that may not be in demand any longer.

Currently, we offer and ship three different basic models of systems; (i) a 5 kW based systems, (ii) an 8.5 kW based system and (iii) a 16 kW based systems (two 8.5 kW systems configured in tandem back-to-back). Each of these systems can be configured with different options such as 110 VAC only, 220 VAC only, 24 VDC only, 12

VDC only and AC/DC combinations of the same or different voltages. In addition, the system can be configured with single phase, split phase or three-phase output.

A number of the mechanical components are common to all three of the above configurations, while others are very specific. For example, the stators and rotors for the 5 kW systems are different from the 8.5 kW systems, but the housings are the same. Similarly, the electrical components consist of some parts that are geared for a specific configuration while others are generic and can be used for all of the configurations.   The electrical chassis are also interchangeable between the 5 kW and 8.5 kW configurations. Due to the nature and mix of the product being sold, frequently, the 5 kW electrical systems are upgraded to 8.5 kW systems by replacing some components.

From the above description one can understand that the inventory consists of numerous components and subassemblies but not finished systems; therefore each system that is sold and shipped to a customer is built from some components that are in inventory and others that need to be purchased to be able to configure the required system.

Currently, most of the product being shipped consists of 8.5 kW systems. These systems are built by using existing inventory subassemblies and parts, including some that can be used for both 5 kW and 8.5 kW systems, and additional parts that are purchased to provide the required configuration. Typically such systems are built using approximately 20 to 25 percent of existing inventory and approximately 75% of additional parts that are purchased.

However, most of the systems currently being sold to the Korean military consist of 5 kW systems. They have been purchasing approximately 100 systems per year and have indicated to us that they will continue to do so for the next five years. To date we have shipped over 500 such systems (in this case 100% of the rotors and stators are used from existing inventory and over 50% of the electrical parts are also from inventory).

In addition to the above, we constantly see demand for different and unique configurations that require the purchase of additional parts.

ITEM 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit, is recorded, processed, summarized and reported, within the time periods specified in the U.S. Securities and Exchange Commission’s rules and forms, and such information is accumulated and communicated to management as appropriate to allow timely decisions regarding required disclosures.   Our Chief Executive Officer and Chief Financial Officer have evaluated our disclosure controls and procedures and have concluded, as of August 31, 2012, that they were effective.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting during our fiscal quarter ended August 31, 2012, which have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds

During the quarter ended August 31, 2012, we issued 350,000 shares of Common Stock for services rendered valued at $266,000.

All of the sales of unregistered securities are believed to be exempt from registration pursuant to Section 4(2) of the Securities Act of 1933 as these offerings were a private placement to a limited number of qualified investors without public solicitation or advertising.

ITEM 6. Exhibits

10.74 Demand Promissory Note dated June 1, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.
10.75 Demand Promissory Note dated June 22, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.
10.76 Demand Promissory Note dated August 24, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.
10.77 Demand Promissory Note dated August 27, 2012 by and between the Company and Warren Breslow in the original principal amount of $150,000.
10.78 Convertible Promissory Note dated August 10, 2012 by and between the Company and Peter Dalrymple in the original principal amount of $1,000,000.
31.1 Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
31.2 Certifications pursuant to Rule 13a-14 under the Securities Exchange Act of 1934.
32.1 Certification of CEO and CFO Pursuant to 18 U.S.C. § 1350, as Adopted Pursuant to § 906 of the Sarbanes-Oxley Act of 2002.

101.INS XBRL Instance Document

101.SCH XBRL Schema Document

101.CAL XBRL Calculation Linkbase Document

101.LAB Label Linkbase Document

101.PRE Presentation Linkbase Document

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.

AURA SYSTEMS, INC.
(Registrant)

Date: October 15 , 2012

By: /s/ Melvin Gagerman

Melvin Gagerman
Chief Financial Officer
(Principal Financial and Accounting Officer
and Duly Authorized Officer)