

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended.....August 31, 2011
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
(State or other jurisdiction
of incorporation or organization)

95-4106894
(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 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 NO

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

Large Accelerated Filer
Non-accelerated filer

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

**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, 2011
Common Stock, par value \$0.0001 per share	70,143,542 shares

AURA SYSTEMS, INC.

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AURA SYSTEMS, INC.
QUARTER ENDED AUGUST 31, 2011

PART I. FINANCIAL INFORMATION

ITEM 1. STATEMENT REGARDING FINANCIAL INFORMATION

The financial statements included herein have been prepared by Aura Systems, Inc., (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). As contemplated by the SEC under Rule 10-01 of Regulation S-X, the accompanying financial statements and footnotes have been condensed and therefore do not contain all disclosures required by accounting principles generally accepted in the United States of America. However, the Company believes that the disclosures are adequate to make the information presented not misleading. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended February 28, 2011 as filed with the SEC (file number 000-17249).

AURA SYSTEMS, INC.
BALANCE SHEETS
AS OF AUGUST 31, 2011 AND FEBRUARY 28, 2011
(Unaudited)

	2011	2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$53,300	\$104,815
Accounts receivable, net of allowance for doubtful accounts of \$59,070 at August 31 and February 28, 2011, respectively	481,919	296,297
Inventory - current	1,000,000	1,000,000
Other current assets	691,952	450,843
Total current assets	2,227,171	1,851,955
Property, plant, and equipment, net	288,666	380,842
Inventory, non-current, net of allowance for obsolete inventory of \$1,989,671 and \$2,106,391 at August 31 and February 28, 2011, respectively	2,089,276	2,274,013
Total assets	\$4,605,113	\$4,506,810
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Accounts payable	\$1,507,832	\$1,945,372
Accrued expenses	1,235,995	2,632,856
Customer advances	95,212	336,308
Notes payable	87,500	82,500
Convertible notes payable	90,000	290,000
Notes payable and accrued interest- related party	11,627,517	10,148,352
Total current liabilities	14,644,056	15,435,388
Convertible note payable	-	500,000
Total liabilities	14,644,056	15,935,388
Commitments and contingencies	-	-
Stockholders' deficit :		
Common stock, \$0.0001par value; 75,000,000 and 75,000,000 shares authorized at August 31 and February 28, 2011; 69,983,542 and 60,720,956 issued and outstanding at August 31 and February 28, 2011	6,998	6,072
Additional paid-in capital	389,035,294	379,819,510
Accumulated deficit	(399,081,235)	(391,254,160)
Total stockholders' deficit	(10,038,943)	(11,428,578)
Total liabilities and stockholders' deficit	\$4,605,113	\$4,506,810

See accompanying notes to these Unaudited condensed financial statements.

AURA SYSTEMS, INC.
CONDENSED STATEMENTS OF OPERATIONS
THREE AND SIX MONTHS ENDED AUGUST 31, 2011 AND 2010
(Unaudited)

	<u>Three Months</u>		<u>Six Months</u>	
	2011	2010	2011	2010
Net Revenues	\$ 615,599	\$ 997,479	\$ 1,566,770	\$ 1,585,467
Cost of goods sold	<u>333,168</u>	<u>483,713</u>	<u>656,146</u>	<u>783,847</u>
Gross Profit	282,431	513,766	910,624	801,620
Expenses				
Engineering, research and development expenses	382,371	350,965	655,780	812,655
Selling, general and administrative expenses	<u>5,697,564</u>	<u>2,704,020</u>	<u>7,859,639</u>	<u>5,076,049</u>
Total costs and expenses	<u>6,079,935</u>	<u>3,054,985</u>	<u>8,515,419</u>	<u>5,888,704</u>
Loss from operations	<u>(5,797,504)</u>	<u>(2,541,219)</u>	<u>(7,604,795)</u>	<u>(5,087,084)</u>
Other (income) and expense				
Interest expense, net	243,483	238,095	503,986	458,621
(Gain) loss on settlement of debt	(241,619)	-	(266,754)	57,032
Other (income) expense, net	<u>900</u>	<u>-</u>	<u>(14,952)</u>	<u>4,303</u>
Total other (income) expense	<u>2,764</u>	<u>238,095</u>	<u>222,280</u>	<u>519,956</u>
Net Loss	<u>\$ (5,800,268)</u>	<u>\$ (2,779,314)</u>	<u>\$ (7,827,075)</u>	<u>\$ (5,607,040)</u>
Total basic and diluted loss per share	\$ <u>(0.09)</u>	\$ <u>(0.05)</u>	\$ <u>(0.13)</u>	\$ <u>(0.10)</u>
Weighted average shares used to compute basic and diluted income (loss) per share	<u>64,196,117</u>	<u>54,597,759</u>	<u>62,699,227</u>	<u>53,955,156</u>

See accompanying notes to these Unaudited condensed financial statements.

AURA SYSTEMS, INC.
CONDENSED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED AUGUST 31, 2011 AND 2010
(Unaudited)

	2011	2010
Cash flow from operating activities:		
Net Loss	\$(7,827,075)	\$(5,607,040)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	92,176	93,366
Amortization of debt discount	-	72,000
Loss(Gain) on settlement of debt	(266,754)	57,032
Provision for inventory obsolescence	(116,720)	-
Stock options and warrants expense	3,512,127	86,281
Stock issued for services	-	776,000
(Increase) decrease in:		
Accounts receivable	(185,622)	(353,826)
Inventory	301,457	60,893
Other current assets and deposit	133,891	(50,525)
Increase (decrease) in:		
Accounts payable, customer deposit and accrued expenses	1,326,985	1,095,199
Net cash used in operations	<u>(3,029,535)</u>	<u>(3,770,620)</u>
Cash flow from investing activities:		
Acquisition of plant and equipment	-	(9,599)
Cash flow from financing activities:		
Issuance of common stock	1,221,020	470,925
Proceeds from notes payable	1,787,000	2,610,000
Repayments of notes payable	(30,000)	(50,000)-
Proceeds from stock to be issued	-	704,000
Net cash provided by financing activities:	<u>2,978,020</u>	<u>3,734,925</u>
Net increase (decrease) in cash & cash equivalents	<u>(51,515)</u>	<u>(45,294)</u>
Cash and cash equivalents at beginning of period	104,815	45,294
Cash and cash equivalents at end of period	<u>\$53,300</u>	<u>\$ -</u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	\$ 8,761	\$ 9,862
Income taxes	\$ -	\$ -

Supplemental disclosure of non-cash investing and financing activities:

During the six months ended August 31, 2011, \$1,513,841 of notes payable and accrued interest were converted into 2,227,612 shares of common stock, \$599,492 of accounts payable was settled with 908,593 shares of common stock, \$2,259,865 of accrued and unpaid compensation was converted into 3,042,199 shares of common stock, 433,333 shares of common stock were issued as a finder fee and 500,000 shares of common stock were issued for consulting contracts valued at \$375,000.

During the six months ended August 31, 2010, \$124,978 of notes payable and accrued interest were converted into 235,000 shares of common stock, \$180,990 of accounts payable was settled with 235,063 shares of common stock and 1,043,384 shares of common stock were issued for services rendered valued at \$776,000.

See accompanying notes to these Unaudited condensed financial statements.

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

NOTE 1 – BASIS OF PRESENTATION

The condensed interim financial statements included herein have been prepared by the Company, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading.

These statements reflect all adjustments, consisting of normal recurring adjustments which, in the opinion of management, are necessary for fair presentation of the information contained therein. It is suggested that these condensed financial statements be read in conjunction with the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended February 28, 2011. The Company follows the same accounting policies in preparation of interim reports. Results of operations for the interim periods are not indicative of annual results.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Sales revenue is recognized at the date of shipment to customers when a formal arrangement exists, the price is fixed or determinable, the delivery is completed, no other significant obligations of the Company exist and collect-ability is reasonably assured. Payments received before all of the relevant criteria for revenue recognition are satisfied are recorded as unearned revenue.

We recognize revenue for product sales upon shipment and when title is transferred to the customer. When the Company performs the installation of the product, revenue and cost of sales are recognized when the installation is complete. We have in the past earned a portion of our revenues from license fees and recorded those fees as income when we fulfilled our obligations under the particular agreement.

Terms of our sales generally provide for shipment from our facilities to customers FOB point of shipment. Title passes to customers at the time the products leave our warehouse.

The Company does not offer a general right of return on any of its sales and considers all sales as final. However, if a customer determines that a different system configuration would better suit their application, we will allow them to exchange the system and bill them the incremental cost, or credit them if there is a decrease in the system cost. While some sales are for evaluative purposes, they are still considered final sales. The customers' evaluation is for them to determine if there is a benefit to them to outfit additional vehicles in their fleets.

The only potential post delivery obligation the Company might have is for the installation of the unit. However, the unit is typically delivered at the time of installation, and the billing is done when the installation is complete. Any discounts that are offered are done as a reduction of the invoiced amount at the time of billing. The Company does not utilize bill and hold. The Company does provide customers with a warranty; however, due to the low sales volume to date, the amount has not been material and is expensed as incurred.

Cash and Cash Equivalents

Cash and equivalents include cash on hand and cash in time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less. We maintain cash deposits at a bank located in California. Deposits at this bank are insured by the Federal Deposit Insurance Corporation up to \$250,000. We periodically have cash in bank in excess of FDIC insurance limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant risk on cash and cash equivalents.

Accounts Receivable

The Company grants credit to its customers generally in the form of short-term trade accounts receivable. Accounts receivable are stated at the amount that management expects to collect from outstanding balances. When appropriate, management provides for probable uncollectible amounts through an allowance for doubtful accounts. Management primarily determines the allowance based on the aging of accounts receivable balances, historical write-off experience, customer concentrations, customer creditworthiness and current industry and economic trends. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the allowance for doubtful accounts and a credit to accounts receivable.

Inventories

Inventories are valued at the lower of cost (first-in, first-out) or market, on a standard cost basis. We review the components of inventory on a regular basis for excess or obsolete inventory based on estimated future usage and sales. As further described in Note 3, due to continuing lower than projected sales, we are holding inventories in excess of what we expect to sell in the next fiscal year. As of August 31, 2011 and February 28, 2011, \$2,089,276, and \$2,274,013 respectively, of inventories are classified as long-term assets.

Property, Plant, and Equipment

Property, plant, and equipment, including leasehold improvements, are recorded at cost, less accumulated depreciation and amortization. Depreciation is provided using the straight-line method over the estimated useful lives of the respective assets as follows:

Machinery and equipment	5 to 10 years
Furniture and fixtures	7 years

Improvements to leased property are amortized over the lesser of the life of the lease or the life of the improvements. Maintenance and minor replacements are charged to expense as incurred. Gains and losses on disposals are included in the results of operations.

Income Taxes

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial statement reporting amounts at each period end based on enacted tax laws and statutory tax rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. The provision for income taxes represents the tax expense for the period, if any, and the change during the period in deferred tax assets and liabilities.

We have significant income tax net operating losses; however, due to the uncertainty of the realize-ability of the related deferred tax asset and other deferred tax assets, a valuation allowance equal to the amount of deferred tax assets has been established at August 31, 2011 and February 28, 2011.

The impact of an uncertain tax position on the income tax return are recognized at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized if it has less than a 50% likelihood of being sustained. At August 31, 2011 and February 28, 2011, we had no unrecognized tax benefits.

Our continuing practice is to recognize interest and/or penalties related to income tax matters in income tax expense. As of August 31, 2011 and February 28, 2011, we have no accrued interest and penalties related to uncertain tax positions.

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 June 2011, the FASB issued ASU 2011-05, "Presentation of Comprehensive Income" ("ASU 2011-05"). In accordance with ASU 2011-05, an entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. ASU 2011-05 eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. ASU 2011-05 does not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. ASU 2011-05 is effective retrospectively for fiscal years, and interim periods within those years, beginning after December 15, 2011. We are currently evaluating the impact of this standard on our consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS" ("ASU 2011-04"). The amendments in ASU 2011-04 result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, ASU 2011-04 changes the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. For many of the requirements, the FASB does not intend for the amendments in ASU 2011-04 to result in a change in the application of the requirements in Topic 820. ASU 2011-04 is effective prospectively for interim and annual reporting periods beginning after December 15, 2011. This ASU will become effective for the company beginning in the quarter ended January 31, 2012 and we do not expect an impact on our consolidated financial statements.

Reclassifications

Certain reclassifications have been made to the 2010 financial statements to conform to the 2011 presentation.

NOTE 3 – 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, 2011 and August 31, 2010, the Company incurred losses of \$7,827,075 and \$5,607,040, respectively and had negative cash flows from operating activities of \$3,029,535 and \$3,770,620, respectively.

In view of the matters described in the preceding paragraph, recoverability of a major portion of the recorded asset amounts shown in the accompanying balance sheet is dependent upon continued operations of the Company, which in turn is dependent upon the Company's ability to increase profitability from operations, obtain financing, and succeed in its future operations. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or amounts or classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

Management has taken the following steps to revise its operating and financial requirements, which it believes are sufficient to provide the Company with the ability to continue as a going concern:

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) customers (iii) facilities and equipment, and (iv) working capital.

Over the next 12 months, we plan to add quality assurance and quality control staff, a number of mechanical, electrical and test engineers and some support staff. We also plan to augment our management team by hiring a chief operating officer and a chief financial officer as well as a few program managers. We also plan to expand our board from five members to seven with the additional members to be outside independent members. We expect to start a search for a CEO as our current CEO indicated his plans to retire.

We are selling systems for all of the applications currently identified in our business model for fiscal 2012. In addition, we are also in the process of enhancing our product line to address an even larger market segment. We currently provide 5 kW, 8.5 kW and 16 kW solutions and we plan to introduce during the next twelve months a 3 kW DC only solution, a 4kW AC solution, 10/20 kW solution (20 kW is a dual stacked system), 15/30 kW solution (30 kw dual stacked system) and a 60/120 kW 120kW is a dual stacked system) solutions. While there can be no assurances given that we will complete all the developments described above and be able to commercialize them in the planned time, our business model for fiscal 2013 does not contemplate sales for any product not currently available.

NOTE 4 – INVENTORIES

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

	August 31, 2011	February 28, 2011
Raw materials	\$2,389,524	\$2,394,502
Finished goods	2,689,423	2,985,902
	<u>5,078,947</u>	<u>5,380,404</u>
Reserve for potential product obsolescence	(1,856,313)	(1,991,241)
	<u>3,222,634</u>	<u>3,389,163</u>
Non-current portion	(2,089,276)	(2,274,013)
Discount on long term inventory	(133,358)	(115,150)
	<u>\$1,000,000</u>	<u>\$1,000,000</u>

We assessed the net realize-ability and the related potential obsolescence of inventory. In accordance with this assessment, management has recorded a reserve of \$1,856,313 and \$1,991,241 as of August 31 and February 28, 2011, respectively. Management has also recorded a discount on long term inventory of \$133,358 and \$115,150 as of August 31 and February 28, 2011, respectively.

NOTE 5 – OTHER ASSETS

Other assets of \$691,952 and \$450,843 are primarily comprised short term deposits of \$561,280 and \$376,666 as of August 31 and February 28, 2011.

NOTE 6 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment as of August 31, 2011 and February 28, 2011 consist of the following:

	August 31, 2011	February 28, 2011
Machinery and equipment	\$964,111	\$964,111
Furniture and fixtures	163,302	163,302
Leasehold improvements	485,080	485,080
	<u>1,612,493</u>	<u>1,612,493</u>
Less accumulated depreciation	(1,323,827)	(1,231,651)
Property, plant and equipment, net	<u>\$288,666</u>	<u>\$380,842</u>

Depreciation expense was \$92,176 and \$93,366 for the six months ended August 31, 2011 and August 31, 2010, respectively.

NOTE 7 – NOTES PAYABLE

Notes payable as of August 31 and February 28, 2011 consist of the following:

	August 31, 2011	February 28, 2011
Demand note payable, at 10%	\$ 87,500	\$ 82,500
Convertible note payable, at 7%, convertible into common stock at \$3 per share plus accrued interest, due in May 2013. This note was converted into 666,667 shares at face value plus \$17,522 of accrued interest on August 31, 2011.	-	500,000
Convertible note payable, at 10%, convertible into common stock at \$0.75 per share plus accrued interest, due in September 2011. This note was converted into 325,612 shares at face value plus \$40,953 of accrued interest as of August 31, 2011.	-	200,000
Convertible note payable, at 10%, convertible into common stock at \$0.75 per share plus accrued interest, due in September 2011.	90,000	90,000
	<u>177,500</u>	<u>872,500</u>
Less: Current portion	\$ 177,500	\$ 372,500
Long-term portion	<u>\$ -</u>	<u>\$ 500,000</u>

NOTE 8 – NOTES PAYABLE – RELATED PARTY

Related party notes payable as of August 31 and February 28, 2011 consisted of the following:

	<u>August 31, 2011</u>	<u>February 28, 2011</u>
Demand note payable, at 10%, due on demand to a member of our board of directors.	\$ 8,500,000	\$ 8,500,000
Demand note payable, at 10%, due on demand to a member of our board of directors.	1,475,000	-
Convertible note payable, at 10%, convertible into common stock at \$0.75 per share plus accrued interest, due on demand to our CEO. This note was converted into 540,661 shares at face value plus \$45,496 of accrued interest as of August 31, 2011.	-	360,000
Convertible note payable, at 10%, convertible into common stock at \$0.75 per share plus accrued interest, due on demand to our former president. This note was converted into 105,413 shares at face value plus \$11,331 of accrued interest as of August 31, 2011.	-	50,000
Accrued interest	1,652,517	1,238,352
	<u>\$ 11,627,517</u>	<u>\$ 10,148,352</u>

NOTE 9 - ACCRUED EXPENSES

Accrued expenses as of August 31 and February 28, 2011 consist of the following:

	<u>August 31, 2011</u>	<u>February 28, 2011</u>
Accrued payroll and related expenses	1,184,296	\$2,520,107
Accrued interest	24,543	112,749
Other	27,156	-
Total	<u>\$1,235,995</u>	<u>\$2,632,856</u>

Accrued payroll and related expenses consists primarily of salaries accrued but not paid to certain employees due to our lack of financial resources. As of August 31 and February 28, 2011, these amounts total \$904,201 and \$1,889,420, respectively. Also included in this amount is accrued vacation expense of \$232,968 and \$584,065 at August 31 and February 28, 2011, respectively.

NOTE 10–SHAREHOLDERS' EQUITY

Common Stock

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.

During the six months ended August 31, 2010, we issued 757,130 shares of Common Stock for cash consideration of \$470,925. We also issued 235,000 shares of Common Stock for the conversion of \$124,978 of notes payable and accrued interest, 1,043,384 shares of Common Stock for services valued at \$776,000, and 215,063 shares of Common Stock for the settlement of \$160,990 of accounts payable.

Employee Stock Options

During the six months ended August 31, 2011, the Company granted 1,319,000 options to certain employees. These options vest over three years, have an exercise price of \$1.00, and have a five year life. The grant date fair value of these options amounted to \$503,933 which was calculated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return of 1.12%, volatility of 78.99%, 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 28, 2011	\$0.75	\$0.00	5,304,500
Granted	\$0.75-\$1.00	\$0.00	1,319,000
Cancelled	\$0.75	\$0.00	(207,278)
Outstanding, August 31, 2011	\$0.75-\$1.00	\$0.00	6,416,222

The exercise prices for the options outstanding at August 31, 2011, 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	6,416,222	3.4 years	\$ 0.80	3.1 years	4,861,649	\$ 0.76

Warrants

Activity in issued and outstanding warrants is as follows:

	Number of Shares	Exercise Prices
Outstanding, February 28, 2011	8,688,576	\$0.75-\$4.00
Granted	16,877,787	\$1.00-\$1.50
Expired	(40,000)	\$1.00
Outstanding, August 31, 2011	25,526,363	\$0.75-\$1.50

During the six months ended August 31, 2011, the Company granted 9,000,000 warrants to certain employees & directors. These warrants vest immediately, have an exercise price of \$1.00, and have a five year life. The grant date fair value of these warrants amounted to \$3,412,173 which was calculated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return of 0.98%, volatility of 78.99%, a dividend yield of 0%, and an expected life of 5 years.

The exercise prices for the warrants outstanding at August 31, 2011, 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	16,722,787	8,872,787	59 months	\$1.00	\$1.00	\$0.00
\$1.50	155,000	155,000	55 months	\$1.50	\$1.50	\$0.00
\$0.75-1.50	2,693,286	2,693,286	41 months	\$0.90	\$0.90	\$0.00
\$0.75-1.25	1,314,710	1,314,710	35 months	\$1.25	\$1.25	\$0.00
\$1.50	1,900,000	1,900,000	34 months	\$1.50	\$1.50	\$0.00
\$1.00-\$4.00	1,934,991	1,934,991	8 months	\$3.90	\$3.90	\$0.00
\$4.00	<u>805,589</u>	<u>805,589</u>	5 months	\$4.00	\$4.00	\$0.00
	<u>25,526,363</u>	<u>17,676,363</u>				

NOTE 11 –INCOME TAXES

The Company did not record any federal income tax expense due to the net loss for the six-months ended August 31, 2011 and 2010. Total provision for income taxes as of August 31, 2011 and 2010 is as follows:

	August 31, 2011	August 31, 2010
Current:		
Federal	\$ -	\$ -
State	800	800
Total	<u>800</u>	<u>800</u>
Deferred		
Federal	-	-
State	-	-
Total	<u>-</u>	<u>-</u>
Total Income Tax Provision	\$ <u>800</u>	\$ <u>800</u>

The actual tax benefit differs from the expected tax benefit computed by applying the statutory United States corporate tax rate of 34% to loss before income taxes as follows for the six-months ended August 31, 2011 and 2010:

	August 31, 2011	August 31, 2010
Tax benefit at statutory rate	(34%)	(34%)
State tax net of deferred benefit	(4%)	(4%)
Option expense	15%	1%
Other	1%	1%
Change in valuation allowance	22%	36%
	<u>-%</u>	<u>-%</u>

The following table summarizes the significant components of our deferred tax asset at August 31, 2011 and February 28, 2011:

	<u>2011</u>	<u>2010</u>
Deferred tax asset		
Primarily relating to net operating loss carry-forwards, but also reserves for inventory and accounts receivable, stock-based compensation and other	\$111,000,000	\$110,000,000
Valuation allowance	(111,000,000)	(110,000,000)
Net deferred tax asset	\$ -	\$ -

We recorded an allowance of 100% for deferred tax assets due to the uncertainty of its realization.

At August 31, 2011, we had operating loss carry-forwards of approximately \$333,000,000 for federal purposes, which expire through 2025, and \$61,000,000 for state purposes, which expire through 2017.

We are subject to taxation in the U.S. and California. Our tax years for 2008 and forward are subject to examination by our tax authorities. We are not currently under examination by any tax authority.

NOTE 12 - 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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
United States	\$1,073,437	\$833,593
Canada	393,554	430,786
Europe	52,524	6,580
Asia	29,487	307,008
Other	17,768	7,500
Total	<u>\$1,566,770</u>	<u>\$1,585,467</u>

NOTE 13 – SIGNIFICANT CUSTOMERS

In the six months ended August 31, 2011, we sold AuraGen related products to three significant customers whose sales comprised 35%, 24% and 21% of net sales, respectively. Net accounts receivable from these customers at August 31, 2011 were \$9,548, \$229,890 and \$144,853 respectively. These customers are not related to or affiliated with us. In the six months ended August 31, 2010, we sold AuraGen related products to three significant customers whose sales comprised 26%, 22% and 19% of net sales, respectively. These customers are not related to or affiliated with us.

NOTE 14 – SUBSEQUENT EVENTS

Subsequent to the end of the quarter, we entered into a Securities Purchase Agreement whereby we issued Senior Secured Convertible Notes in the aggregate original principal amount of \$3,675,000.

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 28, 2011.

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 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. 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 28, 2011 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 August 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. Many purchases of the product are being made for evaluation purposes. We seek to achieve profitable operations by obtaining market acceptance of the AuraGen[®] as a competitive - if not superior - product providing mobile power, thereby causing sales to increase dramatically to levels which support a profitable operation. 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. Due to continuing lower than projected sales, 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 inventory. 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 collectability 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 FY 2012 compared to six months FY 2011

Net revenues for the six months ended August 31, 2011 (the "Six Months FY2012") decreased \$18,697 to \$1,566,770, from \$1,585,467 in the six months ended August 31, 2010 (the "Six Months FY2011"), a decrease of 1%. 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 \$127,701 to \$656,146 in the Six Months FY2012, from \$783,847 in the Six Months FY2011, a decrease of 16%. Cost of goods can vary at a different rate than our sales as a result of the mix of the different systems that are sold. Typically, 8kW systems carry a higher gross margin than 5kW systems, so our cost of sales and resulting gross margin is affected by the sales in each category.

Engineering, research and development expenses decreased \$156,875 (19%) to \$655,780 in the Six Months FY2012 from \$812,655 in the Six Months FY2011. While the Company intends to increase expenditures in this area in the future, financial constraints have prevented us from doing so in the past. We have begun, in the current quarter, to modestly increase these expenses.

Selling, general and administrative expenses increased \$2,783,590 (55%) to \$7,859,639 in the Six Months FY2012 from \$5,076,049 in the Six Months FY2011. The increase is primarily attributable to non-cash charges of \$3,512,127 for stock options and warrants issued to employees and board members in the current year, partially offset by the expense associated with stock issued for the payment of services relating to marketing and investor relations of in the prior year.

Net interest expense in the Six Months FY2012 increased \$45,365 (10%) to \$503,986 from \$458,621 in the Six Months FY2011 as a result of our increased debt levels, primarily the 10% demand note from a member of our Board of Directors, which has increased from \$8,500,000 at February 28, 2011 to \$9,975,000 at August 31, 2011.

Our net loss for the Six Months FY2012 increased \$2,220,035 (40%) to \$7,827,075 from \$5,607,040 in the Six Months FY2011 primarily as a result of the non-cash charge for the amortization of expenses associated with the employee stock option plan in the current year, partially offset by a reduction in the other expenses noted above.

Three months ended August 31, 2011 compared to three months ended August 31, 2010

Net revenues for the three months ended August 31, 2011 (the "Second Quarter FY2012") decreased \$381,880 to \$615,599 from \$997,479 in the three months ended August 31, 2010 (the "Second Quarter FY2011"), a decrease of 38%. The decrease is primarily attributable to a decrease in sales to two customers. These customers are ongoing customers, but do not order on a regular basis.

Cost of goods decreased \$150,545 (31%) to \$333,168 in the Second Quarter FY2012 from \$483,713 in the Second Quarter FY2011. 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 increased \$31,406 (9%) to \$382,371 in the Second Quarter FY2012 from \$350,965 in the Second Quarter FY 2011. These expenses have decreased substantially in prior periods, but we are now beginning to increase these expenses and expect to continue to increase them in the upcoming year.

Selling, general and administrative expense increased \$2,993,544 (111%) to \$5,697,564 in the Second Quarter FY2012 from \$2,704,020 in the Second Quarter FY2011. The increase is primarily attributable to non-cash charges of \$3,467,945 for employee stock options in the current year, partially offset by the expense associated with stock issued for the payment of services relating to marketing and investor relations of in the prior year

Net interest expense in the Second Quarter FY2012 increased \$5,388 (10%) to \$243,483 from \$238,095 in the Second Quarter FY2011 as a result of our increased debt levels, primarily our 10% demand note payable to a member of our Board of Directors.

Our net loss for the Second Quarter FY2012 increased \$3,020,954 to \$5,800,268 from \$2,779,314 in the Second Quarter FY2011, primarily as a result of the increased charges associated with the employee stock option plan.

Liquidity and Capital Resources

We had cash of approximately \$53,000 and \$105,000 as of August 31, 2011, and February 28, 2011, respectively. We had a working capital deficit at August 31, 2011, and February 28, 2011 of \$12,416,885 and \$13,583,433, respectively. The working capital deficit includes notes payable and accrued interest to related parties of \$11,627,517 and \$10,148,352 as of August 31 and February 28, 2011, respectively, including a convertible note payable of \$360,000 to our CEO at February 28, 2011. As of August 31, 2011, we had accounts receivable, net of allowance for doubtful accounts, of \$481,919 compared to \$296,297 as of February 28, 2011.

Net cash used in operations for the six months ended August 31, 2011, was \$3,029,535, a decrease of \$741,085 from the comparable period in the prior fiscal year. Net cash provided by financing activities during the six months ended August 31, 2011, was \$2,978,020, resulting from net proceeds from notes payable of \$1,757,000, along with proceeds from the sale of Common Stock totaling \$1,221,020.

There were no acquisitions of property and equipment in the six months FY 2012, compared to acquisitions totaling \$9,599 in the six months FY2011.

Accrued expenses as of August 31, 2011 decreased \$1,396,861 to \$1,235,995 from \$2,632,856 as of February 28, 2011. Approximately \$800,000 of accrued expenses is salaries accrued but unpaid to certain employees due to a lack of resources, and approximately \$230,000 is accrued but unused vacation time earned by employees. Of the \$800,000 in unpaid salaries at August 31, 2011, approximately \$270,000 was paid subsequent to the end of the quarter.

Net proceeds from the issuance of debt totaled \$1,757,000 in the six months FY 2012, compared with \$2,560,000 in the six months FY 2011. Included in the debt proceeds of \$1,757,000 in the six months of FY2012 is a total of \$1,475,000 from a member of our Board of Directors. As of October 10, 2011, the total amount owing this board member is \$9,475,000 plus accrued interest of approximately \$1,750,000. 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 \$10,038,943 in shareholders' equity as of August 31, 2011, compared to \$11,428,578 as of February 28, 2011. The deficit includes approximately \$11.95 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 2012.

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 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 at 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 \$412,551 of accrued and unpaid employee compensation.

During the quarter ended August 31, 2010, we issued 757,130 shares of Common Stock for cash consideration of \$470,925. We also issued 235,000 shares of Common Stock for the conversion of \$124,978 of notes payable and accrued interest. We also issued 643,384 shares of Common Stock for services valued at \$468,000.

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, most of which was then assembled into finished AuraGen[®] units. 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 we do not expect to realize all of its inventories within the next year. The net inventories as of August 31 and February 28, 2011, 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 six years. To date we have shipped over 400 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, 2011, 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, 2011, 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 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.

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

- 10.59 Demand Promissory Note dated July 25, 2011 by and between the Company and Warren Breslow in the original principal amount of \$250,000.
 - 10.60 Demand Promissory Note dated August 4, 2011 by and between the Company and Warren Breslow in the original principal amount of \$100,000.
 - 10.61 Demand Promissory Note dated August 12, 2011 by and between the Company and Warren Breslow in the original principal amount of \$225,000.
 - 10.62 Demand Promissory Note dated August 25, 2011 by and between the Company and Warren Breslow in the original principal amount of \$250,000.
 - 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 17, 2011

By: /s/ Melvin Gagerman

Melvin Gagerman

Chief Financial Officer

(Principal Financial and Accounting Officer
and Duly Authorized Officer)