

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.....May 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 June 30, 2011
Common Stock, par value \$0.0001 per share	64,614,937 shares

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**AURA SYSTEMS, INC.**

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**AURA SYSTEMS, INC.**

**QUARTER ENDED MAY 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).

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**AURA SYSTEMS, INC.**

**BALANCE SHEETS**

(Unaudited)

As of

	<u>May 31, 2011</u>	<u>February 28, 2011</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 146,878	\$ 104,815
Accounts receivable, net of allowance for doubtful accounts of \$59,070 at May 31 and February 28, 2011, respectively	789,510	296,297
Inventory - current	1,000,000	1,000,000
Other current assets	<u>758,066</u>	<u>450,843</u>
Total current assets	2,694,454	1,851,955
Property, plant, and equipment, net	334,574	380,842
Inventory, non-current, net of allowance for obsolete inventory of \$2,045,540 and \$2,106,391 at May 31 and February 28, 2011, respectively	<u>2,181,735</u>	<u>2,274,013</u>
Total assets	<u>\$ 5,210,763</u>	<u>\$ 4,506,810</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 1,930,135	\$ 1,945,372
Accrued expenses	2,631,230	2,632,856
Customer advances	384,213	336,308
Notes payable	394,500	82,500
Convertible notes payable	90,000	290,000
Notes payable and accrued interest- related party	<u>10,626,275</u>	<u>10,148,352</u>
Total current liabilities	16,056,353	15,435,388
Convertible note payable	500,000	500,000
Total liabilities	<u>16,556,353</u>	<u>15,935,388</u>
Commitments and contingencies	-	-
Stockholders' deficit :		
Common stock, \$0.0001 par value; 75,000,000 and 75,000,000 shares authorized at May 31 and February 28, 2011; 63,964,937 and 60,720,956 issued and outstanding at May 31 and February 28, 2011	6,396	6,072
Additional paid-in capital	381,928,980	379,819,510
Accumulated deficit	<u>(393,280,966)</u>	<u>(391,254,160)</u>
Total stockholders' deficit	<u>(11,345,590)</u>	<u>(11,428,578)</u>
Total liabilities and stockholders' deficit	<u>\$ 5,210,763</u>	<u>\$ 4,506,810</u>

See accompanying notes to these Unaudited condensed financial statements.

AURA SYSTEMS, INC.

STATEMENTS OF OPERATIONS

FOR THREE MONTHS ENDED MAY 31, 2011 AND 2010

(Unaudited)

	<u>May 31</u>	
	<u>2011</u>	<u>2010</u>
Net Revenues	\$ 951,171	\$ 587,988
Cost of goods sold	<u>322,978</u>	<u>300,134</u>
Gross Profit	628,193	287,854
Operating expenses:		
Engineering, research and development expenses	273,409	461,690
Selling, general and administrative expenses	<u>2,162,075</u>	<u>2,372,029</u>
Total operating expenses	<u>2,435,484</u>	<u>2,833,719</u>
Loss from operations	(1,807,291)	(2,545,865)
Other (income) and expense:		
Interest expense, net	260,503	171,926
(Gain) Loss on settlement of debt and beneficial conversion	(25,136)	105,632
Other income, net	<u>(15,852)</u>	<u>4,303</u>
Total other (income) expense	<u>219,515</u>	<u>281,861</u>
Net Loss	<u>\$ (2,026,806)</u>	<u>\$ (2,827,726)</u>
Total basic and diluted loss per share	<u>\$ (0.03)</u>	<u>\$ (0.05)</u>
Weighted average shares used to compute basic and diluted loss per share	<u>61,202,336</u>	<u>53,312,554</u>

See accompanying notes to these Unaudited condensed financial statements.

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**AURA SYSTEMS, INC.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MAY 31, 2011 AND 2010**  
(Unaudited)

	<u>2011</u>	<u>2010</u>
<b>Cash flow from operating activities:</b>		
Net Loss	\$ (2,026,806)	\$ (2,827,726)
Adjustments to reconcile Net loss to net cash used in operating activities		
Depreciation Expense	46,268	46,545
(Gain) Loss on settlement of debt	(25,136)	105,632
Stock issued for services	-	488,000
Provision for inventory obsolescence	(60,851)	-
Stock options and warrants expense	44,182	43,565
(Increase) decrease in:		
Accounts receivable	(493,213)	(109,653)
Inventory	153,130	1,673
Other current assets and deposit	67,777	(28,192)
Increase (decrease) in:		
Accounts payable, customer deposit and accrued expenses	<u>722,692</u>	<u>328,439</u>
Net cash used in operations	<u>(1,571,957)</u>	<u>(1,951,717)</u>
<b>Investing activities:</b>		
Acquisition of plant and equipment	-	(9,599)
Net cash used by investing activities	<u>-</u>	<u>(9,599)</u>
<b>Financing activities:</b>		
Issuance of common stock	652,020	470,925
Proceeds from notes payable, net	962,000	1,460,000
Net cash provided by financing activities:	<u>1,614,020</u>	<u>1,930,925</u>
Net increase (decrease) in cash & cash equivalents	<u>42,063</u>	<u>(30,391)</u>
Cash and cash equivalents at beginning of period	104,815	45,294
<b>Cash and cash equivalents at end of period</b>	<u><u>\$ 146,878</u></u>	<u><u>\$ 14,903</u></u>
Supplemental disclosures of cash flow information		
Cash paid during the period for:		
Interest	-	-
Income taxes	-	-

Unaudited supplemental disclosure of non-cash investing and financing activities:

During the quarter ended May 31, 2011, \$646,450 of notes payable and accrued interest was converted into 978,757 shares of common stock. We also issued 8,593 shares of our Common Stock in satisfaction of \$4,726 in accounts payable.

See accompanying notes to these Unaudited condensed financial statements.

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**AURA SYSTEMS, INC.**

**NOTES TO CONDENSED FINANCIAL STATEMENTS**

**May 31, 2011**

**(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**

The Company's revenue recognition policies are in compliance with Staff Accounting Bulletin (SAB) 104. 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 Aura 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 have not experienced any losses in such accounts and believe we are not exposed to any significant risk on cash and cash equivalents.

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## 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 May 31, 2011 and February 28, 2011, \$2,181,735, 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

We account for income taxes in accordance with FASB ASC 740, "Income Taxes". Under FASB ASC 740, 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 May 31, 2011 and February 28, 2011.

FASB ASC 740 also provides criteria for the recognition, measurement, presentation and disclosure of uncertain tax positions. A tax benefit from an uncertain position may be recognized only if it is "more likely than not" that the position is sustainable based on its technical merit.

## 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.

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## Recently Issued Accounting Pronouncements

In March 2010, the Financial Accounting Standards Board (“FASB”) issued guidance related to revenue recognition for multiple element deliverables which eliminates the requirement that all undelivered elements must have objective and reliable evidence of fair value before a company can recognize the portion of the consideration that is attributable to items that already have been delivered. Under the new guidance, the relative selling price method is required to be used in allocating consideration between deliverables and the residual value method will no longer be permitted. This guidance is effective prospectively for revenue arrangements entered into or materially modified in 2011 although early adoption is permitted. A company may elect, but will not be required, to adopt the amendments retrospectively for all prior periods. The Company does not expect this guidance will have a material effect on the Company’s financial statements.

In January 2010, FASB issued ASU No. 2010-06 – Improving Disclosures about Fair Value Measurements. This update provides amendments to Subtopic 820-10 that requires new disclosure as follows: 1) Transfers in and out of Levels 1 and 2. A reporting entity should disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers. 2) Activity in Level 3 fair value measurements. In the reconciliation for fair value measurements using significant unobservable inputs (Level 3), a reporting entity should present separately information about purchases, sales, issuances, and settlements (that is, on a gross basis rather than as one net number). This update provides amendments to Subtopic 820-10 that clarifies existing disclosures as follows: 1) Level of disaggregation. A reporting entity should provide fair value measurement disclosures for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. A reporting entity needs to use judgment in determining the appropriate classes of assets and liabilities. 2) Disclosures about inputs and valuation techniques. A reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3. The new disclosures and clarifications of existing disclosures are effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. These disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this ASU will not have a material effect on the Company’s financial statements.

In December 2010, the FASB issued amended guidance related to Business Combinations. The amendments affect any public entity that enters into business combinations that are material on an individual or aggregate basis. The amendments specify that if a public entity presents comparative financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination(s) that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The amendments also expand the supplemental pro forma disclosures to include a description of the nature and amount of material, nonrecurring pro forma adjustments directly attributable to the business combination included in the reported pro forma revenue and earnings. The amendments are effective prospectively for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. Early adoption is permitted. The Company will assess the impact of these amendments on its consolidated financial statements if and when an acquisition occurs.

In December 2010, the FASB issued amended guidance related to intangibles—goodwill and other. The amendments modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating that impairment may exist. The qualitative factors are consistent with the existing guidance and examples, which require that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. The Company does not believe that this guidance will have a material impact on its consolidated financial statements.

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The FASB has issued amended guidance for subsequent events. The amendment removes the requirement for an SEC filer to disclose a date through which subsequent events have been evaluated in both issued and revised financial statements. Revised financial statements include financial statements revised as a result of either correction of an error or retrospective application of U.S. GAAP. The FASB also clarified that if the financial statements have been revised, then an entity that is not an SEC filer should disclose both the date that the financial statements were issued or available to be issued and the date the revised financial statements were issued or available to be issued. The FASB believes these amendments remove potential conflicts with the SEC's literature. All of the amendments were effective upon issuance (February 24, 2010). The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

## Reclassifications

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

## NOTE 3 – INVENTORIES

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

	May 31, 2011	February 28, 2011
Raw materials	\$ 2,406,596	\$ 2,394,502
Finished goods	2,820,679	2,985,902
	<u>5,227,275</u>	<u>5,380,404</u>
Reserve for potential product obsolescence	(1,906,280)	(1,991,241)
	<u>3,320,995</u>	<u>3,389,163</u>
Non-current portion	(2,181,735)	(2,274,013)
Discount on long term inventory	(139,260)	(115,150)
	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Current portion	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>

Inventories consist primarily of components and completed units for 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 May 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.

We assessed the net realize-ability of these assets, and the potential obsolescence of inventory. In accordance with this assessment, management has recorded a reserve of \$1,906,280 and \$1,991,241 at May 31 and February 28, 2011, respectively. Management has also recorded a discount on long term inventory of \$139,260 and \$115,150 at May 31 and February 28, 2011, respectively.

#### **NOTE 4 – OTHER ASSETS**

Other assets of \$758,066 and \$450,843 are primarily comprised of short term deposits of \$656,473 and \$376,666 as of May 31 and February 28, 2011.

#### **NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT**

Property, plant, and equipment at May 31, 2011 and February 28, 2011 consist of the following:

	<u>May 31,</u> <u>2011</u>	<u>February</u> <u>28, 2011</u>
Machinery and equipment	\$ 964,111	\$ 964,111
Furniture and fixtures	163,302	163,302
Leasehold improvements	<u>485,080</u>	<u>485,080</u>
	1,612,493	1,612,493
Less accumulated depreciation and amortization	<u>1,277,919</u>	<u>1,231,651</u>
Property, plant and equipment, net	<u>\$ 334,574</u>	<u>\$ 380,842</u>

Depreciation and amortization expense was \$46,268 and \$46,545 for the three months ended May 31, 2011 and May 31, 2010, respectively.

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## NOTE 6 – NOTES PAYABLE

Notes payable as of May 31 and February 28, 2011 consisted of the following:

	<u>May 31,</u> <u>2011</u>	<u>February</u> <u>28, 2011</u>
Demand notes payable (a)	\$ 394,500	\$ 82,500
Convertible notes payable (b)	<u>590,000</u>	<u>790,000</u>
	984,500	872,500
Less: Current portion	<u>484,500</u>	<u>372,500</u>
Long-term portion	<u>\$ 500,000</u>	<u>\$ 500,000</u>

- (a) Consists of four unsecured demand notes payable totaling \$394,500, with interest at an annual rate of 10%, on which \$4,362 in interest was accrued during the three months ended May 31, 2011.
- (b) Consists of an unsecured convertible note payable totaling \$500,000, bearing interest at a rate of 7%, due in 2013. The note is convertible into our common stock at a price of \$3 per share. The Company accrued interest of \$8,761 on the note during the three months ended May 31, 2011. Also consists of two unsecured convertible notes entered into during the second quarter of fiscal 2010 totaling \$290,000. The notes carry an interest rate of 10%, are for a term of 180 days, and are convertible into common stock of the company at \$0.75 per share. The company accrued interest of \$7,277 on the notes during the three months ended May 31, 2011. One of these notes for \$200,000 plus accrued interest of \$40,953 was converted into shares of our common stock during the quarter ended May 31, 2011.

Future maturities of notes payable at May 31, 2011 are as follows:

Year Ending February 28,	
2012	\$484,500
2013	<u>500,000</u>
Total	<u>\$984,500</u>

## NOTE 7 – NOTES PAYABLE – RELATED PARTY

As of May 31, 2011, the total balance of related-party notes payable is \$9,200,000, which consists of \$9,150,000 unsecured notes payable plus accrued interest of \$1,416,242 to a member of our Board of Directors, payable on demand, bearing interest at a rate of 10% per annum. During the three months ended May 31, 2011, interest of \$223,132 was incurred on these notes and is included in accrued interest. The note also consists of \$50,000 unsecured convertible note payable to our President. The note is for 120 days, carrying an interest at a rate of 10% and is convertible into shares of our common stock at a price of \$0.75 per share. During the three months ended May 31, 2011, there is \$1,255 accrued interest on the note. During the three months ended May 31, 2011, our CEO converted his outstanding note payable of \$360,000 plus accrued interest of \$45,496 into shares of our Common Stock. As of May 31, 2011, we are in default on the note payable to our President and it is now due on demand.

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## NOTE 8 - ACCRUED EXPENSES

Accrued expenses at May 31 and February 28, 2011 consist of the following:

	May 31, 2011	February 28, 2011
Accrued payroll and related expenses	\$2,552,400	\$2,520,107
Accrued interest	48,571	112,749
Other	30,259	-
Total	<u>\$2,631,230</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. At May 31 and February 28, 2011, these amounts total \$2,090,071 and \$1,889,420, respectively. Also included in this amount is accrued vacation expense of \$233,779 and \$584,065 at May 31 and February 28, 2011, respectively.

## NOTE 9 - SHAREHOLDERS' EQUITY

### Common Stock

During the quarter ended May 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.

During the quarter ended May 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.

### Employee Stock Options

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	-	-	-
Cancelled	\$ 0.75	\$ 0.00	(17,000)
Outstanding, May 31, 2011	\$ 0.75	\$ 0.00	5,287,500

The exercise prices for the options outstanding at May 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	5,287,500	3.3 years	\$ 0.75	3.3 years	4,797,947	\$ 0.75	

## Warrants

Activity in issued and outstanding warrants is as follows:

	<u>Number of Shares</u>	<u>Exercise Prices</u>
Outstanding, February 28, 2011	8,688,576	\$0.75-\$4.00
Granted	155,000	\$1.50
Expired	-	-
Outstanding, May 31, 2011	<u>8,843,576</u>	<u>\$0.75-\$1.50</u>

The exercise prices for the warrants outstanding at May 31, 2011, and information relating to these warrants is as follows:

<u>Range of Exercise Prices</u>	<u>Stock Warrants Outstanding</u>	<u>Stock Warrants Exercisable</u>	<u>Weighted-Average Remaining Contractual Life</u>	<u>Weighted-Average Exercise Price of Warrants Outstanding</u>	<u>Weighted-Average Exercise Price of Warrants Exercisable</u>	<u>Intrinsic Value</u>
\$1.50	155,000	155,000	58 months	\$1.50	\$1.50	\$0.00
\$0.75-1.50	2,693,286	2,693,286	44 months	\$0.90	\$0.90	\$0.00
\$0.75-1.25	1,354,710	1,354,710	38 months	\$1.25	\$1.25	\$0.00
\$1.50	1,900,000	1,900,000	37 months	\$1.50	\$1.50	\$0.00
\$1.00-\$4.00	1,934,991	1,934,991	11 months	\$3.90	\$3.90	\$0.00
\$4.00	805,589	805,589	8months	\$4.00	\$4.00	\$0.00
	<u>8,843,576</u>	<u>8,843,576</u>				

### NOTE 10 – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the periods ended May 31, 2011 and 2010, the Company incurred losses of \$2,026,806 and \$2,827,726, respectively and had negative cash flows from operating activities of \$1,836,042 and \$1,951,717, respectively.

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.

We currently have a backlog of approximately \$27.25 million consisting of the following elements:(i) South Korean Military approximately \$5.0 million (on-going business), (ii) U.S. military approximately \$4.5 million (on-going business), (iii) Hybrid vehicle applications of approximately \$1.5 million (on-going business), (iv) Transport refrigeration systems approximately \$16.0 million (agreement with Zanotti)and (v) Misc. applications of approximately \$250,000.

To fulfill this backlog, we will need sufficient working capital for (i) daily operations, (ii) purchase of raw materials and subassemblies, (iii) purchase of the required equipment, and (iv) supporting cash flow. Our cash flow analysis is based on certain assumptions that include 45 days for collection of account receivables after shipment, 30 day terms for accounts payable to vendors and suppliers, and all monthly operational costs paid during the month in which they are incurred. Based on our business model and projections, as well as historical costs for COGS and other expenses, we determined that the Company will need to raise approximately \$10.0 million in new capital. We can not guarantee, but we plan to raise the required capital through the private placement of equity or convertible debt.

We are selling systems for all of the applications currently identified in our business model for fiscal 2010. 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 4kW, 12 kW, 25 kW and 50 kW 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 2012 does not contemplate sales for any product not currently available.

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.

Because of our historic net losses and negative working capital position, our independent auditors, in their report on our consolidated financial statements for the year ended February 28, 2011 expressed substantial doubt about our ability to continue as a going concern. 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.

#### **NOTE 11 - 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 three months ended May 31, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
United States	\$ 781,808	\$ 393,802
Canada	89,907	81,339
Europe	51,124	6,347
Asia	28,332	99,000
Other	-	7,500
Total	<u>\$ 951,171</u>	<u>\$ 587,988</u>

#### **NOTE 12 – SIGNIFICANT CUSTOMERS**

In the three months ended May 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 at May 31, 2011 were \$508,718, \$140,276 and \$37,500 respectively. These customers are not related to or affiliated with us. In the three months ended May 31, 2010, we sold AuraGen related products to three significant customers whose sales comprised 29%, 17% and 13% of net sales, respectively. Net accounts receivable from these customers at May 31, 2010 were \$155,337, \$3,508 and \$61,530 respectively. These customers are not related to or affiliated with us.

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## 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 may result from our possible inability to continue as a going concern.

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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 may 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.

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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**

### **First Quarter FY 2012 compared to First Quarter FY 2011**

Net revenues for the three months ended May 31, 2011 (the "First Quarter FY2012") increased \$363,183 to \$951,171, from \$587,988 in the three months ended May 31, 2010 (the "First Quarter FY 2011"), an increase of 62%. The increase is primarily associated with military related shipments, partially offset by decreased shipments to other customers. At the relatively low level of sales currently generated by the Company, net revenue can fluctuate substantially quarter to quarter based upon the timing of when orders come in and shipments are made.

Cost of goods increased to \$322,978 in the First Quarter FY 2012, from \$300,134 in the First Quarter FY 2011, as a result of the increase in net revenues. The increase in cost of goods was smaller proportionately than the increase in revenues, as the increased revenues were primarily from military related shipments, which carry a higher gross margin, offset partially by lower shipments of 5kW systems, which have a lower gross margin associated with them.

Engineering, research and development expenses decreased \$188,281 (41%) to \$273,409 in the First Quarter FY2012 from \$461,690 in the First Quarter FY 2011. While the Company intends to increase expenditures in this area in the future, financial constraints have prevented us from doing so, and we are currently focusing our efforts on our current products.

Selling, general and administrative expenses decreased \$209,951 (9%) to \$2,162,075 in the First Quarter FY 2012 from \$2,372,029 in the First Quarter FY 2011. The decrease is primarily due to a reduction in sales and marketing expenses from the prior year, and a reduction in outside consulting fees from the prior year, partially offset by increased salary expenses resulting from the addition of personnel in the second quarter of last fiscal year.

Other income and expense decreased approximately \$62,000 from the prior year period. The current year period included a gain on the settlement of debt of approximately \$25,000 compared to a loss on settlement of debt in the prior year period of approximately \$105,000. Additionally, the current year period reflects other income of approximately \$16,000 resulting from an insurance audit refund related to a prior year compared to other expense of approximately \$4,000 in the prior year. Net interest expense in the First Quarter FY 2012 increased \$88,577 to \$260,503 from \$171,926 in the First Quarter FY 2011. The increase is primarily attributable to the increased interest expense associated with the loans from a member of our Board. The loans from our board member totaled \$9,150,000 as of May 31, 2011, compared to \$6.2 million as of May 31, 2010, and carry an interest rate of 10%.

Our net loss for the First Quarter FY 2012 decreased \$800,930 (27%) to \$2,026,806 from \$2,827,726 in the First Quarter FY 2011 primarily as a result of the increased gross margin related to increased military related shipments, and the reductions in sales and marketing expenses noted above.

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## Liquidity and Capital Resources

We had cash of approximately \$147,000 and \$105,000 at May 31, 2011, and February 28, 2011, respectively. We had a working capital deficit at May 31, 2011, and February 28, 2011 of \$13,361,899 and \$13,583,433, respectively. The working capital deficit includes notes payable and accrued interest to related parties of \$10,626,275 and \$10,148,352 as of May 31 and February 28, 2011, respectively, and a convertible note payable of \$360,000 to our CEO at February 28, 2011. At May 31, 2011, we had accounts receivable, net of allowance for doubtful accounts, of \$789,510 compared to \$296,297 as of February 28, 2011.

Net cash used in operations for the quarter ended May 31, 2011, was \$1,571,957, a decrease of \$379,760 from the comparable quarter in the prior fiscal year. Net cash provided by financing activities during the quarter ended May 31, 2011, was \$1,614,020, resulting from net proceeds from notes payable of \$962,000, along with proceeds from the sale of Common Stock totaling \$652,020.

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

Accrued expenses as of May 31, 2011, remained approximately the same as accrued expenses as of February 28, 2011, as the increase in accrued compensation to certain employees whose salaries are being deferred due to a lack of cash resources, was approximately offset by the conversion of accrued compensation into common stock of the Company. Approximately \$2.1 million in 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.

Net proceeds from the issuance of debt totaled \$962,000 in the First Quarter FY 2012, compared with \$1,460,000 in the First Quarter FY 2011. Included in the debt proceeds of \$962,000 in the first quarter of FY2012 is a total of \$650,000 from a member of our Board of Directors. As of June 30, 2011, the total amount owing this board member is \$9,150,000 plus accrued interest of approximately \$1,500,000. 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 \$11,345,590 in shareholders' equity as of May 31, 2011, compared to \$11,428,578 as of February 28, 2011. The deficit includes approximately \$8.5 million of non-cash expenses resulting from charges for stock option and warrant expense for fiscal years 2008 through the first quarter 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 May 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 May 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.

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#### **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 May 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 May 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 quarter ended May 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.

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**

- 10.56 Demand Promissory Note dated March 18, 2011 by and between the Company and Warren Breslow in the original principal amount of \$150,000.
  - 10.57 Demand Promissory Note dated April 7, 2011 by and between the Company and Warren Breslow in the original principal amount of \$300,000.
  - 10.58 Demand Promissory Note dated May 20, 2011 by and between the Company and Warren Breslow in the original principal amount of \$200,000.
  - 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.
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**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: July 15, 2011

By: /s/ Melvin Gagerman

**Melvin Gagerman**

Chief Financial Officer

(Principal Financial and Accounting Officer

and Duly Authorized Officer)

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