UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K
(Mark One)

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

For the fiscal year ended...February 28, 2013

OR

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

For the transition period from.........................to...........................

Commission file number **……..0-17249**

AURA SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

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

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

Registrant's telephone number, including area code: **(310) 643-5300**
Former name, former address and former fiscal year, if changed since last report:

Name of each exchange on which registered: **None**
Securities registered pursuant to Section 12(b) of the Act: **None**
Securities registered pursuant to Section 12(g) of the Act: **Common Stock**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes☐ No☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes☐ No☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-accelerated filer ☐ Smaller Reporting Company ☒

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 ☐

On August 31, 2012 the aggregate market value of the voting stock held by non-affiliates of the Registrant was $33,645,328. The aggregate market value has been computed by reference to the last sale price of the stock on August 31, 2012.

On May 17, 2013, the Registrant had 84,114,499 shares of common stock outstanding.

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SPECIAL NOTE REGARDING 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 headings "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and elsewhere in this Report 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.*

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.

References in this Report to "we", "us", "the Company," "Aura" or "Aura Systems", includes Aura Systems, Inc. and its subsidiaries.

WHERE YOU CAN FIND MORE INFORMATION

As a public company, we are required to file annual, quarterly and special reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). You may read and copy any of our materials on file with the SEC at the SEC's Public Reference Room at 100 F Street N.E., Washington, DC 20549. Our filings are available to the public over the Internet at the SEC's website at http://www.sec.gov. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room. We also make available copies of our Forms 8-K, 10-K, 10-Q, Proxy Statement and Annual Report at no charge to investors through our website, http://www.aurasystems.com, as soon as reasonably practicable after filing such material with the SEC.

PART I

ITEM 1. BUSINESS

Introduction

We design, assemble, test and sell our proprietary and patented Axial Flux induction machine ("AF") known as the AuraGen® for industrial and commercial applications and VIPER for military applications. Our patented system when applied as a generator uses the engine of a vehicle or any other prime mover to create mechanical energy and the AuraGen converts the mechanical energy to electric power. Our patented control system is used to deliver such power to the user. When used as an electric motor, our system delivers mechanical power to drive mechanical devices.

Traditional induction machines are Radial Flux ("RF") machines and are the workhorse of industry due to their robustness, attractive cost, and easy control; however, they are relatively heavy and bulky. Axial flux induction machines on the other hand, have all of the advantages of the radial flux machines but with the advantage of higher energy density resulting in smaller, lighter machines with equivalent performance. Unlike the permanent magnet ("PM") machines, induction machines do not use any permanent magnets and therefore the controller can change the B fields since generally B is proportionate to the voltage divided by the frequency (V/f). It is generally accepted that for PM machines, as machine size grows, the magnetic losses increase proportionately and partial load efficiency drops. With induction machines, as the machine size grows, losses do not necessarily grow. Induction drives could offer an advantage when high-performance is desired; the peak efficiency will be somewhat lower than with PM machines, but average efficiency may actually be better.

The history of electric motors reveals that the earliest machines were in fact axial flux machines. However after the first radial flux machines were demonstrated in the early 1900's, such machines were accepted as mainstream configuration. The reason for shelving the axial flux machines were multifold and can be summarized as follows: (i) strong axial magnetic attraction force between the stator and the rotor, (ii) fabrication difficulties such as cutting the slots in laminated cores, (iii) high cost involved in manufacturing the laminated stator core, (iv) difficulties in assembling the machine and keeping a uniform air gap and (v) providing a laminated rotor that can stand the large centrifugal forces.

Modern techniques show that all of the historical objections can be overcome with recent developments in the design of such machines, as well as, the design of the proper manufacturing processes and tooling.

The issue of dealing with the strong axial magnetic attraction force between the stator and the rotor is completely overcome by Aura's patented approach of using a topology of two stators and a rotor sandwiched between them. This has been disclosed in Aura's U.S. Patent 5,734,217 (March, 1998) and U.S. Patent 6,157,175 (Dec, 2000). In addition to other benefits, the topology is such that the axial forces on the bearings are very small and negligible.

The issues dealing with the fabrication difficulties and the high cost involved in manufacturing of the laminated stator cores have been resolved years ago by Aura Systems using a technique involving punching the slots while rolling the steel. This approach creates a continuous punched steel ribbon at a cost that is lower than the traditional punched laminates because less material is wasted. The equipment required uses a closed loop control system that controls a precision step-motor and a punching press. The manufacturing processes is fully proven with thousands of units delivered by Aura Systems over the last 10 years on machines in the 5-16 kW. There are no technical showstoppers to use the same techniques for any size machines.

Many manufacturers of PM axial flux machines, as well as Aura Systems with its induction axial flux machines have resolved the issues dealing with difficulties in assembling the machine and keeping a uniform air gap. This is therefore no longer an issue.

Aura Systems Inc. has also developed a cast rotor for the axial flux machine as described in U.S. Patents 5,734,217 and 6,157,175. Such rotor does not require any laminates and provides the structural integrity to withstand very large centrifugal forces, while at the same time, provides the proper electric and magnetic properties.

As described above Aura Systems developed the technology and manufacturing processes to overcome the traditional objections for axial flux machines. Once the objections for the axial flux approach have been removed by Aura Systems as described above, one had to develop a smart control system that provided for a total variable speed solution. A complete power generation system based on Aura's axial flux generator and Aura's unique smart controller is disclosed in Aura's U.S. Patent 6,700,214 (March 2, 2004). Finally Aura's U.S Patent 6,700,802 (March 2, 2004) disclosed a method where power from multi sources can be added to handle sudden power spikes such those that occur when a compressor, motor, pump, etcetera are turned on. In addition patent 6,700,802 teaches a very unique method (bi-directional Power supply) to provide uninterrupted total seamless transition from generator power to battery pack power and back to generator power.

The AuraGen® /VIPER system is composed of three primary subsystems (i) the patented axial flux design alternator, (ii) the electronic control unit ("ECU") and (iii) mounting kit that is a mechanical interface between the alternator and the prime mover. The architecture of our patented ECU is designed to separate the power generation from the power user, thus creating a flexible system that can support multi voltages simultaneously. The system architecture is based on having a direct current ("DC") power bus that is used to excite the alternator and also to collect energy from the alternator. The user loads are supported from the power bus and not directly from the alternator. This immediately leads to a load following design where the demand on the alternator at any moment in time is equal to the demanded user load (up to the maximum alternator power capabilities). In addition the output power is constructed from the power bus with either a PWM based inverter for alternating current "(AC") output, and or, a unique patented bi direction power supply ("BDPS") that acts as a DC to DC converter to provide different DC voltages as an output. The BDPS provides the capability of adding power to the bus from a DC source such as batteries whenever sudden spikes or demands occur. The BDPS also provides the seamless transition to maintain the power bus when the prime mover is turned off (batteries are used to support the power bus).

After a lengthy development period we began commercializing the AuraGen® in late 1999 and 2000. Our first commercial product was a 5,000-watt 120/240V AC machine, in 2001; we added an 8,000-watt configuration and also introduced the BDPS that allowed us to provide simultaneously AC/DC solution. In fiscal 2008, we introduced a system that generates up to 16,000-watts of continuous power by combining two 8,000 watts systems (dual system) and in fiscal 2010 we introduced the TanGen system that combines two 8,000 watts systems on a single output shaft (two rotors on a single shaft). We are currently developing a 30,000-watt system consisting of two rotors on a single shaft (each one with 15,000 watts capability).As described above, we focus on mobile power applications and thus we require interface kits to prime movers. Many of our applications are such that the AuraGen/VIPER is driven directly from a truck or SUV engine. We now have configurations available for more than 90 different engine types, including a majority of models of General Motors and Ford, some Chrysler models and numerous other engine models made by International, Isuzu, Nissan, Hino (Toyota), Mitsubishi, Caterpillar, Detroit Diesel, Cummins, and Freightliner. In addition we have interface kits for numerous model of military HMMWV, as well as other military vehicles. Also, starting in fiscal 2008, the AuraGen/VIPER was installed on a number of U.S. Navy boats and is currently being installed under contract on the U.S. Coast Guard 44 ft. patrol boats. In addition to the usage of the vehicle engine as the prime mover, we have also developed numerous Power-Take-Off ("PTO") interface kits for many different vehicle platforms. We are also working with a number of customers on integrating our AuraGen/VIPER power solution with stand alone engines knows as Auxiliary-Power-Unit ("APU") to be used in emergency rescue and electric vehicle applications.

Business arrangements

Over the last several years we entered into a number of agreements for some specific applications of our power solution. The current key agreements are with (i) Zanotti SpA for transport refrigeration, (ii) Seokmun Inc. for both commercial and military applications in South Korea, (iii) Funpos Inc. for all applications in Israel, and (iv) Fait Holding Ltd. for applications in France and Indonesia. We also entered into a distribution agreement with Neva Marine for Turkey and with Atlantis Marine for the U.K.

The all-electric solution for transport refrigeration has been undergoing extensive integration and tests to ensure reliability under severe winter and summer conditions. After extensive engineering efforts the AuraGen electronic controller is now integrated with the transport refrigeration system and is housed in the same location as the refrigeration. The engineering activities and extensive testing has delayed marketing and sales. Our first sales were in the 4th quarter of fiscal 2013.

Seokmun Inc., a South Korean company, has been Aura's distributor for military applications since 2006 and recently became our commercial distributor in South Korea. Seokmun, in 2007 won a 10-year program from the Korean Army to deliver 1,000 AuraGen VIPERs (100 per year). To date Aura has delivered approximately 600 such systems and will deliver the next 100 systems later this year. In addition Seokmun was instrumental in winning a number of other South Korean military contracts for a total of 2,137 systems that include 400 of the systems that are yet to be delivered against the original 1,000-unit award in 2007. The current systems for the South Korean army are to be delivered approximately over the next 5 years; In addition there are numerous other VIPER programs currently under consideration by the South Korean military.

Funpos Inc., an Israeli company, is our agent for Israel. Currently we are pursuing a number of worldwide opportunities through major Israeli defense companies such as Plasan, Rafael, Elta and others. We started shipping small quantities of systems to Israel during fiscal 2012 and 2013 and expect increases in deliveries going forward.

The AuraGen®/VIPER

The AuraGen® is composed of three basic subsystems. The first subsystem is the AF generator that is bolted to, and driven by, the vehicle's engine, PTO, or any other prime mover. The second subsystem is the ECU, which filters and conditions the electricity to provide clean, steady voltages for both AC and DC power, and provides for variable speed applications as well as load following for increased efficiency. The third subsystem consists of mounting brackets and supporting components for installation and integration of the generator with the vehicle engine, PTO, or the prime mover.

Currently we are delivering power solutions for three continuous power levels, (a) 5,000 watts AC/DC, (b) 8,000 watts AC/DC and (c) 16,000 watts AC/DC. We are also under contract with the U.S. Army to develop a 30,000-watt solution (expected to be completed by the middle of fiscal 2014). All the AC power is pure sine wave with total harmonic distortion of less than 2.1% and is available in 120 VAC and or 240 VAC and is some applicationas at 480VAC. In addition, the power generated on all models can be partitioned to provide simultaneous AC and 14 or 28 volts of DC or only DC, if required by the user. The AuraGen power levels can be generated as the prime mover speed varies from idle to maximum rated speed. The VIPER (the military version of the AuraGen® system) includes as an option a complete power management system which (i) monitors in real time the batteries' voltage and temperature, (ii) provides a partition of the power between AC and DC simultaneously with the ability to be programmed from all AC to all DC, (iii) monitors the RPM of the generator, (iv) monitors the temperatures of the generator and the ECU, (v) monitors the raw power generated, (vi) monitors both the AC and DC loads as to voltage and current, (vii) provides programming of load prioritization and load shedding, and (viii) monitors the voltage of the internal 400-800VDC bus.

Mobile and Remote (not power grid connected) Power Industry

The mobile and remote power generation market is large and growing. There are four basic market segments (i) military, (ii) stationary but remote commercial/industrial, (iii) mobile industrial/commercial, and (iv)Hybrid and electric vehicles. The military market place is also divided between mobile and stationary applications.

According to the U.S. Census Bureau, in 2007 the U.S. motor and generator industry, for larger than one horsepower applications, recorded more than $9.5 billion in sales (*U.S Census Bureau Industry Statistical Sampler).*

One of the fastest growing segments in the military market place is On-Board-Exportable-Power (OBEP), that is, electric power on vehicles that can be used to support other than vehicle functions. The driver for the increase demand for on board power are numerous advance weapon systems as well as increase in C^4I functions (command, control, communication, computers and information. Currently, most on board power is provided by APUs that are (i) large fuel users, (ii) bulky, (iii) heavy and (iv) require constant maintenance. Militaries all over the world are seeking more efficient integrated power solutions for their vehicles.

Similar to the military demands, the commercial and industrial market also requires on board power to support modern computers, digital sensors and instruments as well as electrical driven tools. Current automotive alternators cannot supply the existing demanded power and thus the common solution is the use of APUs. These APUs are environmentally unfriendly, heavy users of fuel, heavy, bulky and require constant maintenance and scheduled service. Vehicles used in the telecommunications, utilities, public works, construction, catering, oil and gas industries, emergency/rescue, and recreational vehicles rely heavily on mobile power for their daily work.

Hybrid and electric vehicles by their nature require significant amounts of on board power to charge batteries as well as to operate electric motors. *In 2010 approximately 274,210 hybrid vehicles were sold in the U.S(www.afdc.energy.gov/afdc/data/docs/hev_sales.xls*)

In addition to vehicle related applications, other stationary applications require a solution that converts mechanical energy into electrical energy. According to Market Research News May 24, 2011 "In 2009, nearly 9.3 million generators were sold globally for residential applications. Supported by a recovery in the global economy, worldwide residential engine-generator unit sales are expected to grow by 7% per year to nearly 13 million units in 2014".

The traditional available solutions for mobile and remote power users are:

- <u>Gensets (AKA APUs),</u> Gensets are standalone power generation units that are not incorporated into a vehicle and require external fuel, either gasoline or diesel, in order to generate electricity. Gensets (i) are generally noisy and cumbersome to transport because of their weight and size, (ii) typically run at constant speed to generate 50 or 60 Hz of AC power, (iii) must be operated at a significant part of the rated power to avoid wet staking, (iv) are significantly derated in the presence of harmonics in the loads and (v) require significant scheduled maintenance and service. Genset technology has been utilized since the 1950s.

- <u>High-Output Alternators,</u> High-output alternators are traditionally found in trucks and commercial vehicles and the vehicle's engine is used as the prime mover. All high-output alternators provide their rated power at very high RPM and significantly less power at lower RPM. In addition, high-output alternators are generally only 30% efficient at the low RPM range and increase to 50% efficiency at the high end of the RPM range. The power generated by high-output alternators is 12 or 24 Volt DC and an inverter is required if AC power is needed. In addition, due to the low power output at low RPMs, in order to get significant power, a throttle controller is used to speed-up the engine.

- <u>Inverters,</u> Inverters are devices that invert DC to AC. Inverters as mobile power generators are traditionally used in low power requirements, typically less than 2,500 watts, and do not have the ability to recharge the batteries that are traditionally used as the source of power. Thus, typical inverter users require other means to recharge the used batteries such as "shore-power" or gensets. More recently dynamic inverters became available. Dynamic inverters use power from the alternator to augment power from the batteries and are able to achieve power levels in excess of 6,000 watts. Dynamic inverters introduce significant stresses on both the batteries and alternators, which causes significant life shortening for both.. When the inverter is turned on, the alternator is switched off from the vehicle battery and tied into a transformer that uses electronic controls to change the DC alternator inputs to AC inverter output. A separate transformer winding provides battery charging so that fully regulated 120 Volt AC and 12 Volt DC power is available as long as the engine is running at high enough RPM to provide power for the load and the battery charging. All dynamic inverters require a high-output alternator to be able to output significant AC power. As is often the case, the limiting factor is the high-output alternator. In order to get stable output, a very accurate throttle controller is also needed to maintain steady speed on the engine.

- <u>Permanent-Magnet Alternators.</u> Recently a number of companies have introduced alternators using exotic permanent magnets. These alternators tend to have higher power generation capabilities than regular alternators at lower engine RPM. In order to be practical in an under-the–hood environment (200°F) active cooling must be added, since the magnets are demagnetized at approximately 176°F. There are other issues that require an active control system that will add and subtract magnetic field strength as the engine RPM increases. Over 95% of the magnets used for electric machines comes from China and starting in 2011 the price of the magnets has sky rocketed. In addition China started limiting export of the magnets in order to have sufficient supplies for local consumption.

- <u>Fuel Cells.</u> Fuel cells are solid-state devices that produce electricity by combining a fuel containing hydrogen with oxygen. They have a wide range of applications and can be used in place of the internal combustion engine and traditional lead-acid and lithium-ion batteries. The most widely deployed fuel cells cost about $3,000 per kilowatt.

- <u>Batteries</u>. Batteries convert stored chemical energy to electrical energy.

Competition

The Company is involved in the application of its AuraGen technology to mobile power and, as such, faces substantial competition from companies offering different technologies.

Gensets AKA APU- Portable generators meet a large market need for auxiliary power. Millions of units per year are sold in North America alone, and millions more across the world to meet market demands for 1 to 20 Kilowatts of portable power. The market for these power levels basically addresses the commercial, leisure and residential markets, and divides essentially into: a) higher power, higher quality and higher price commercial level units; and b) lower power, lower quality and lower price level units. Gensets provide the strongest competition across the widest marketplace for auxiliary power. Onan, Honda and Kohler, among others, are well established and respected brand names in the genset market for higher reliability auxiliary power generation. There are 44 registered genset-manufacturing companies in the U.S.

High Output Alternators-There are many High Output Alternator manufacturers. Some of the better known are: Delco-Remy, Bosh, Nippon Densu, Hitachi, Mitsubishi and Prestolite. All alternators provide their rated power at very high RPM and significantly less power at lower RPM. In addition alternators are generally only 30% efficient at the low RPM range and increase to 50% efficiency at the high RPM range. The AuraGen/VIPER end to end system (including mechanical linkages and belt) is over 80% efficient at the low RPM range and is approximately 75% efficient at the very high RPM range (at very high RPM windage is the major lose).

*Inverters-*There are many inverter manufacturers; the best known one is Xentrex. The pricing of industrial grade sine wave inverters is, approximately $700-$850 per kilowatt plus the cost of a high output alternator ($1,000) and a good throttle controller ($250-$500).

Permanent-Magnet ("PM") alternators.-Recently a number of companies have introduced alternators using exotic NdFeB magnets (UQM technologies is one of the better known). These alternators tend to have higher power generation capabilities than regular alternators at lower RPM. Unfortunately, PM machines with NdFeB magnets are very sensitive to temperature and cannot survive the typical under the hood environment (200^{o}F+). In order to apply such devices for automotive applications one must add expensive and cumbersome active cooling since the magnets are demagnetized at approximately (176^{o}F).

In addition to the temperature challenges of such machines, there are other issues involving active control of the magnetic field. The main disadvantage of PM generators is the difficulty of output voltage regulation to compensate for speed and load variation due to the lack of a simple means of field control.

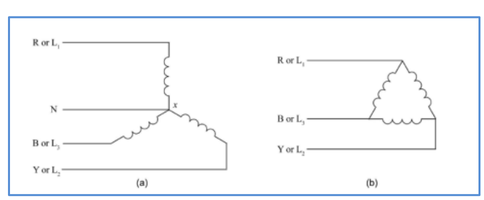
Finally, PM machines are significantly more expensive than induction machines. Recent global events have caused the price of Nd to increase from $20 per kilogram to over $90 per kilogram with most of the material coming from China. In addition to the recent price increase, the Chinese government has used Nd as a political weapon, thus causing the US government and others to look for alternative solutions that do not use Nd magnets. Clearly the Aura solution is a great alternative to any PM solution.

*Fuel Cells-*Fuel cells are solid-state, devices that produce electricity by combining a fuel containing hydrogen with oxygen. They have a wide range of applications, and can be used in place of the internal combustion engine and traditional lead-acid and lithium-ion batteries. So why aren't fuel cells being installed everywhere? The most widely deployed fuel cells cost about $3,000 per kilowatt.

Others- Symetron Technology by Raser Inc. is sometimes mistaken for a new form of motor or generator. The Symetron technology is a variable frequency motor/generator controller that uses numerous control schemes to optimize performance. The Symetron technology involves adaptive tuning to continuously optimize motor and system efficiency for the speed and torque operating point. When the system was tested in November 2006 the adaptive algorithm or table calculations were performed offline and then input to the controller.

The Symetron controller is a potential competitor to variable speed motor controllers provided by such companies as of ABB, or Baldor-Electric Co. The Symetron technology is not a new form of motor/generator.

There are a number of companies that advertise a "secret" approach for higher performance of inductive machines. Typically these



claims are not proven and are based on changing the winding connections from Y to D or D to Y as shown.

Transport Refrigeration ("TRU")- The main competitors for the all-electric TRU are traditional diesel based solutions provided by Thermo-king and Carrier. The diesel based comparable systems provided by Thermo-king and Carrier are somewhat less expensive than our All Electric solution (Zanotti refrigeration +Aura's power system), however the diesel solutions require frequent regular scheduled maintenance and a separate diesel engine that consumes considerable fuel every operating hour. In addition, the diesel solutions emit harmful emissions and are becoming subject to numerous federal and state regulations.

The economic and environmental benefits of the AuraGen solution are greatly amplified in transport refrigeration applications where a separate diesel engine is eliminated. An analysis of our solution for mid size refrigeration trucks (117,000 trucks across the nation) shows potential annual savings in excess of 26,000 *tons of NMHC+NOx, 23,000 tons of CO and over to 1,400 tons of PM*. The diesel fuel savings exceed 100,000,000 annual gallons. The above numbers are very conservative since they reflect: (i) the assumption that all refrigeration diesel engines already meet the Tier 4 EPA requirements (to be phased in 2008-2013) and (ii) that there are no additional savings from idle reductions. Both of the assumptions are used as a lower bound for the anticipated savings.

Most of our competitors have greater financial, technical, and marketing resources than the Company. They have larger budgets for research, new product development and marketing, and have long-standing customer relationships. We also compete with many larger and more established companies in the hiring and retention of qualified personnel. Our financial condition has limited our ability to market the AuraGen® aggressively.

The AuraGen® uses new technology and because our product is radically different from traditionally available mobile power solutions, users may require lengthy evaluation periods in order to gain confidence in the product. OEMs and large fleet users also typically require considerable time to make changes to their planning and production.

Because of our limited financial and staff resources, we have focused our sales and marketing activities to a few industrial and military segments. In particular, our military focus is on selling to users, including the U.S. Coast Guard (the "USCG"), U.S. Special ops, U.S.N, U.S.A, as well as the South Korean military. We are in the process of selling to the Israeli defense contractors, the U.K Royal Navy and the Singapore Navy.

More recently we expanded our focus and are now marketing to companies in the emergency/rescue, oil and gas segment, and the transport refrigeration segment.

Competitive Advantages of the AuraGen®

The AuraGen's patented breakthrough compact design is more than 50% smaller and lighter than the traditional solutions, allowing "under-the-hood" AuraGen installation in commercial vehicles, powered by the vehicle's existing engine or power takeoff "PTO". Traditional solutions are too large and bulky to be integrated into a commercial vehicle and therefore, require their own independent power source.

The AuraGen power solution is more efficient than traditional solutions due to the significant increase in efficiency of the AuraGen design over conventional designs (traditional alternators are at best 50% efficient). The conversion of chemical energy to electrical energy is governed by the following limitations; (i) diesel fuel (chemical material) has approximately 38 kW-Hr of energy per gallon, (ii) diesel engine have a theoretical efficiency of 40% (practically the efficiency is close to 30%), (iii) the transformation of chemical energy to mechanical energy results in approximately 15.2 kW-Hr per gallon of fuel, (iv) the conversion of mechanical energy to electrical energy in automotive applications is done through a generator (alternator) whose traditional efficiency is 50% or less, resulting in approximately 7.6 kW-Hr per gallon of fuel. The AuraGen power system (including the Axial flux machine and the support electronic controller) efficiency in automotive applications is approximately 80%, which results in 12.16 kW-Hr per gallon. As an example, if there is a need for 10 kW of power, the traditional solution will require approximately 1.3 gallons per hour of fuel while the AuraGen solution will require only 0.83 gallons per hour for the same output.

The AuraGen solution is a load following solution that further increases the efficiency. A load following solution only generates the required power at any instant, thus for applications where the power needs vary over time the AuraGen solution provides even greater efficiency.

The AuraGen, unlike traditional gensets, provides "clean" power required to operate sophisticated electronic equipment, which is a growing need for mobile power market We believe the AuraGen® is a superior product due to its convenience, cost efficiency, fuel efficiency, reliability, flexibility in power output, quality of the electricity generated, and its ability to provide the full power at variable speeds as well as provide load following architecture. The AuraGen® is not sensitive to temperature or altitude variations and generates the rated power at or near idle engine RPM.

The ability to operate at variable speed makes the Aura solution very attractive when the speed of the prime mover varies and is unpredictable, such as in automotive applications. The variable speed solution is a direct consequence of our system architecture where we separated the power generation from the power delivery by the power bus.

The AuraGen® does not require scheduled maintenance and is offered with a three-year warranty, compared to the typical one-year warranty available for a Genset or inverter.

In addition, the AuraGen® is significantly cleaner for the environment than Gensets, the other generally available mobile power solution. The AuraGen® uses the automotive engine, which is highly regulated for environmental protection. Gensets use small engines that produce significantly higher levels of emissions per unit of power output than the automobile engine.

We believe that barriers to entry make it less likely that a product superior to the AuraGen® will become available in the foreseeable future. The inventions upon which the AuraGen® is based are protected by patents issued by the U.S. Patent Office and numerous patents pending The AuraGen® system is Underwriters Laboratories ("UL") approved. In late 2004 and early 2005 the U.S. Marine Corps successfully tested the VIPER for safety and other operational capabilities at the Aberdeen Test grounds.

Targeted markets

Our main focus for fiscal 2014 is (i) Transport refrigeration, and (ii) Military applications.

(i) A key element of our business plan is focused on All-electric Transport refrigeration. The market is well understood and both social and economic forces are providing an unprecedented opportunity to gain significant market share. Our immediate focus is on 20k BTU/hr midsize trucks and the 50k BTU/hr trailers.

The market for new20k BTU/hr midsize trucks is for approximately 15,000 new trucks per year and a significant retrofit market of the existing over 100,000 operating systems across North America. The market for new 50k BTU/hr trailers is approximately 40,000 new units per year and also a significant retrofit market for the over 400,000 operating systems in North America...

(ii) Another key element is the acceptance of our mobile power solution in military applications around the globe. Our near term focus is marketing efforts in the U.S, South Korea, and Israel.

We are currently under contract to deliver 2,137 systems to the South Korean military (included in the 2137 systems are approximately 400 systems yet to be delivered under the 2007 1,000 system contract. All 2,137 systems are to be delivered approximately over the next 5 years. We are also pursuing a number of additional opportunities with the South Korean military.

We have a number of opportunities through Israel with (i) Plasan, (ii) Rafael, (iii) ELTA and the (iv) IDF directly. In addition there are some smaller opportunities with other defense contractors in Israel. In addition to the opportunities in Israel we also are exploring opportunities in the UK, Turkey and France.

In the U.S we are currently under contract to supply dual 8 kW systems to the U.S.C.G for their 44 ft. patrol boats. We are also under contract with the U.S.A to develop a 30 kW VIPER system. In addition we supply units for numerous special ops operations

The oil and gas industry is a heavy user of mobile power for service. We have identified a number of oil and gas service companies that require the power level, as well as the power quality, generated by the AuraGen. Currently we are selling small quantities of the AuraGen for such applications in Europe and Canada and we are exploring opportunities in the US.

Facilities, Manufacturing Process and Suppliers

Our facilities consist of approximately 30,000 square feet in El Segundo, California and 8,000 square feet in McDonough Georgia. The El Segundo facilities is currently being used for assembly and testing using components that are produced by various suppliers as well as for general offices, engineering and warehousing. The Georgia facility is used for installation and service. The rent for the El Segundo facility is approximately $30,000 per month. The rent in McDonough is approximately $4,000 per month. We anticipate during fiscal 2014 to find a new facility of approximately 60,000 square feet. The new facility would be sufficient for our near term anticipated needs.

As we are depleting our current inventory of parts, components and subassemblies and we will need to renew contracts with such manufacturers or locate other suitable manufacturers. Since we emerged from our Chapter 11 reorganization in January 2006, we have renewed our relationships with a number of our old suppliers and are developing relationships with others. To ensure quality and reliability in the field, we use highly qualified suppliers, the majority of which are ISO 9002 compliant.

Distribution and Product Support

We provide a turnkey product and service to support our customers in every area. We have performed all of the development, from basic physics to detailed engineering. We believe our core capabilities provide a solid foundation to resolve technical issues, develop an ongoing line of new products and continually enhance our products.

Our vehicle integration team develops, engineers, and supplies all of the brackets, pulleys, idlers, belts, tensioners and other components that comprise a mounting system. The group also specifies all of the requirements of the AuraGen® to allow its use with other mobile drives, such as hydraulic systems and PTO applications.

Our sales efforts to date have been focused on direct sales to the end users in the US and distributors outside the US.. Going forward we are exploring the possibilities of building a network of dealers for specific applications. We are also exploring OEM relationships in some applications. We employee a sales force, who is compensated with a modest base salary, and commissions based on sales.

We sell directly to the U.S Military and other state and federal government agencies, as well as multi end users of our product in North America.

We have an exclusive distribution agreement with Seokmun Inc. in Korea for military and commercial applications. We have an exclusive distribution agreement with Funpos Inc. for all applications in Israel. We have an exclusive distribution with Fait Holding Ltd. for all applications in France and Indonesia. We recently entered into an exclusive distribution agreement in Turkey with Neva Marine, are also currently negotiating with a number of other entities for distribution agreements in different parts of the globe. We entered into an agreement with Zanotti for the sale and distribution of our All-Electric Transport Refrigeration Unit (“ALTRU”).

Research and Development

We believe that ongoing research and development is important to the success of our product in order to utilize the most recent technology, to develop additional products and additional uses for existing products, to stay current with changes in vehicle manufacture and design and to maintain an ongoing advantage over potential competition. Our engineering, research and development costs for fiscal 2013 were approximately $1.3 million compared to approximately $1.3 million in fiscal 2012. However, our research and development is planned to increase in fiscal 2014 to approximately $2.6 million as we plan to bring different configurations to market.

We are engaged in numerous new and enhanced developments of our AuraGen/VIPER both as company sponsored research and development ("R&D") and contract related R&D activities.

We are in the process of integrating a number of new advanced features into our mobile power solution. We are developing a new more powerful Inverter Charger System ("ICS") that will be able to provide up to 8 kW of power from a battery source when the prime mover is off. We have now delivered a number of solutions that provide for 3-phase 240VAC power and we are in the process of integrating this solution as a new option for our product line. We are also developing a standalone DC/DC converter that will provide 4 kW from 300-400VDC input to both 12VDC and 24VDC output. We are also designing a new power module that will provide us with the capability to offer higher power solutions, for both US, and international users (different voltage configurations).

Patents and Intellectual Property

Our intellectual property portfolio consists of trademarks, proprietary know-how and patents.

In the area of electromagnetic technology, we have developed numerous magnetic systems and designs that result in a significant increase of magnetic field density per unit volume that can be converted into useful power energy or work. This increase in field density is a factor of three to four, which, when incorporated into mechanical devices, could result in a significant reduction in size and cost of production for the same performance.

The applications of these technological advances are in machines used every day by industrial, commercial and consumers. We have applied technology to numerous applications in industrial machines, such as generators, motors, actuators and linear motors.

We hold the following patents: Nos. 5,734,217; 6,157,175; 6,700,214; 6,700,802; with expiration dates in 2018, 2020, 2024 and 2024 respectively. The above patents cover three areas, as described below.

Induction Machine

The basic patent covers a new form of induction machine with superior performance in a much smaller size than conventional machines. The solid cast rotor, the shaped magnetic field, the secondary conduction path through the steel, and the axial magnetic orientations are key components of this innovation.

Control System

This system separates the power generation from the power delivery by introducing a 400 VDC buss. For each cycle of each phase, part of the cycle power is drawn from the bus to run the electronics and energize the coils, while during the other part of the cycle, power is delivered to charge up the buss. The control system must balance all the timing to effect zero voltage change to the buss under dynamic variations of frequency and loads. The ability to optimize in real time the slip frequency is a key innovation in motor and generator control for variable speed, variable frequency, and variable load systems.

Bi-Directional Power Supply ("BDP")

The patented ICS system developed by Aura provides a new capability in power systems. The BDP allows a system to use multiple sources of power simultaneously. It is a key component in providing the ability to deliver both AC and DC power simultaneously, as well as the ability to handle large power surges without the need for a throttle controller.

At the end of fiscal 2013 and the first quarter of fiscal 2014 we have filed 5 new patent applications related to the AuraGen. These new patent applications are specifically designed to cover the (i) integration of the AuraGen power solution with transport refrigeration, (ii) the interface kit of the AuraGen with prime movers, (iii) a water cooled AuraGen solution for situations where ventilation is not available, (iv) a unique cable system with safety protection to transfer high power between two moving objects, and (v) a unique clamping of power electronic components to heat sink to ensure good thermal conductivity. If and when issued these new patent applications will expire in 2033.

Employees

As of May 10, 2013, we employed 60 persons, of which all are full time. We are not a party to any collective bargaining agreements.

Significant Customers

During the year ended February 28, 2013, we conducted business with three major customers whose sales comprised 23.0%, 19.6%, and 15.4% of net sales, respectively. As of February 28, 2013, these customers accounted for 42.4% of net accounts receivable. During the year ended February 29, 2012, we conducted business with four major customers whose sales comprised 23.9%, 20.6%, 18.5% and 11.3% of net sales, respectively. As of February 29, 2012, these customers accounted for 75.8% of net accounts receivable.

Backlog

As of May 31, 2013 we have a hard backlog of approximately $16.5 million consisting of the following elements:(i) South Korean Military approximately $13 million (on going business), (ii) U.S. military approximately $3.0 million (on going business), and (iii) Misc. applications of approximately $500,000. In addition we have a well-defined pipeline of business for the South Korean military that could potentially be in excess of $200 million over the next 7 years.

Approximately $2.0 million of the U.S. military backlog is scheduled for delivery after fiscal 2013, and is subject to cancellation or renegotiation at the convenience of the U.S. government. The South Korean hard backlog is to be delivered over approximately 5 years.

ITEM 1A. Risk Factors

As a smaller reporting company, we are not required to provide the information required by this Item 1A.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None

ITEM 2. PROPERTIES

Our facilities consist of approximately 30,000 square feet in El Segundo, California and 8,000 square feet in McDonough Georgia. The El Segundo facilities are currently being used for assembly and testing using components that are produced by various suppliers as well as for general offices, engineering and warehousing. The Georgia facility is used for installation and service. The rent for the El Segundo facility is approximately $30,000 per month. The rent in McDonough is approximately $4,000 per month. We now expect to find a new facility of approximately 60,000 square feet. The new facility would be sufficient for our near term anticipated needs.

ITEM 3. LEGAL PROCEEDINGS

We are not a party to any material pending legal proceedings.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our shares are listed on the OTC Bulletin Board under the symbol “AUSI”. Set forth below are high and low bid prices for our common stock for each quarterly period in the two most recent fiscal years. Such quotations reflect inter-dealer prices, without retail mark-up, markdown or commissions and may not necessarily represent actual transactions in the common stock. We had 6,273 stockholders of record as May 17, 2013.

Period	High	Low
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Fiscal 2012		
First Quarter ended May 31, 2011	$0.80	$0.58
Second Quarter ended August 31, 2011	$0.75	$0.52
Third Quarter ended November 30, 2011	$1.09	$0.62
Fourth Quarter ended February 29, 2012	$0.72	$0.52
Fiscal 2013		
First Quarter ended May 31, 2012	$0.66	$0.41
Second Quarter ended August 31, 2012	$0.54	$0.32
Third Quarter ended November 30, 2012	$0.53	$0.21
Fourth Quarter ended February 28, 2013	$0.53	$0.35

On May 17, 2013, the reported closing sales price for our common stock was $0.42.

Dividend Policy

We have not paid any dividends on our common stock and we do not anticipate paying any dividends on our common stock in the foreseeable future.

Sales of Unregistered Securities

In the year ended February 28, 2013, we issued 3,866,867 shares of common stock, with 2,033,333 five year warrants attached with an exercise price of $1.00, for cash proceeds of $1,252,100 and the availability for up to an additional $500,000 in loans on favorable terms; 341,748 shares were issued upon the conversion of $259,729 of notes payable and accrued interest with 206,941 five year warrants attached with an exercise price of $1.00; 37,500 shares were issued in settlement of $30,000 of accounts payable with 25,000 five year warrants attached with an exercise price of $1.00; and 415,789 shares were issued for marketing services and investor relation services valued at $316,000. Funds raised were for general corporate working capital purposes. All such securities were issued and sold in reliance on the exemption from registration contained in Section 4(2) of the Securities Act of 1933, and the certificates representing such securities contain a restrictive legend reflecting the limitations on future transfer of those securities. The offer and sale of these securities was made without public solicitation or advertising. The investors represented to us that they were knowledgeable and sophisticated, and were experienced in business and financial matters so as to be capable of evaluating an investment in our securities and were an “accredited investor” within the meaning of Regulation D promulgated under the Securities Act of 1933. Each of these investors was afforded full access to information regarding our business.

Repurchases of Equity Securities

We did not repurchase any shares of our common stock during the fourth quarter of fiscal 2013.

ITEM 6. SELECTED FINANCIAL DATA

As a smaller reporting company, we are not required to provide disclosure under this Item 6.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements.

This Management's Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward looking statements, please refer to the section entitled "Forward Looking Statements" at the beginning of this Report immediately prior to "Item 1".

Overview

Our business is based on the exploitation of our patented mobile power solution known as the AuraGen for commercial and industrial applications and the VIPER for military applications. Our business model consists of three major components; (i) sales and marketing, (ii) engineering, and (iii) customer service and support.

(i) Sales and marketing -Our sales approach is composed of direct sales in North America and the use of agents and distributors for sales internationally. In North America our primary focus is in two business segments (a) Transport refrigeration, and (b) U.S Military applications,.

(a) Our sales and marketing approach for all-electric transport refrigeration is based on our strategic alliance with Zanotti and direct sales to major fleet owners of transport refrigeration. We prepared a training class for Zanotti's dealers to ensure proper installations of the AuraGen solution. We have also set up a dedicated sales and service team for transport refrigeration. We originally expected sales to start at the second quarter of fiscal 2012, but due to delayed engineering developments and testing we started transport refrigeration sales in the third quarter of fiscal 2013. We expect significant contribution to our fiscal 2014 revenues from this sector.

(b) Our business approach for the U.S military and other government agencies are based on working with a number of defense contractors for a number of upcoming bids and responding to specific RFQs released by different agencies. We constantly sell small quantities of the VIPER for Special Ops, and we are delivering monthly units to the U.S.C.G. under a multi-year contract.

For international sales we have an exclusive distribution agreement with Seokmun Inc. for Korea, Funpos Inc. for Israel, and Fait Holding Ltd. for France and Indonesia. We have an agreement with Zanotti of Italy for sale of electric systems for transport refrigeration in Europe. We entered into agreements with Neva Marine in Turkey and Atlantis Marine in the U.K. agreements for the UK,

(ii)The second component of our business model is focused on the engineering support for the sales activities described above. The engineering support consists of the introduction of new features for our AuraGen/VIPER solution such as higher power, different voltages, 3 phase options, shore power systems, higher current solutions as well as interface kits for different platforms. After a slow-down in our engineering activities during the 2012 and 2013 fiscal year we expect an increase in engineering activities during the fiscal 2014-year.

(iii)The third component of our business model is customer service. We have trained a number of field engineers to support our product in North America. In addition we are working closely with our international distributors to train their staff to be able to support the product. For transport refrigeration we developed a training program for Zanotti's dealers for installation and service.

Critical Accounting Policies and Estimates

Our management's discussion and analysis of our financial conditions 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

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. While some sales are for evaluative purposes, they are 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. 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.

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, on a standard cost basis. 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 historical reasons, we are holding inventories in excess of what it expects 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 additional 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. We have accrued and expensed approximately $168 per ECU for the cost to upgrade it to current standards and do not anticipate any additional costs to upgrade the units. 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 or if significant discounts from current pricing levels are granted to generate sales, 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 small 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.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC 718, "Compensation – Stock Compensation", which requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair value based method and the recording of such expense in the consolidated statements of operations.

The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with FASB ASC 505-50, “Equity Based Payments to Non-Employees”, whereas the fair value of the equity based compensation is based upon the measurement date as determined at the earlier of either (a) the date at which a performance commitment is reached or (b) at the date at which the necessary performance to earn the equity instruments is complete.

For the past several years and in accordance with established public company accounting practice, the Company has consistently utilized the Black-Scholes option-pricing model to calculate the fair value of stock options and warrants issued as compensation, primarily to management, employees, and directors. The Black-Scholes option-pricing model is a widely-accepted method of valuation that public companies typically utilize to calculate the fair value of options and warrants that they issue in such circumstances.

Research and Development

Research and development costs are expensed as incurred.

Specific asset categories are treated as follows:

Accounts Receivable: We record an allowance for doubtful accounts based on management's 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.

Patents and trademarks: As our business depends on using new technology to create new products, impairments in patents can be triggered by changed expectations regarding the foreseeable commercial production of products underlying such patents.

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

Fiscal 2013 compared to Fiscal 2012

Revenues

Net revenues in fiscal 2013decreased $618,539 to $2,717,446 from $3,335,985 in fiscal 2012, a decrease of 18.5%. The decrease is attributable to normal sales fluctuations period to period due to our relatively small sales volume and small customer base.

Cost of Goods

Cost of goods sold in fiscal 2013 decreased $244,455 to $1,527,700from $1,772,155 in fiscal 2012. As a percentage of net revenues, cost of goods sold increased to56 % in fiscal 2013 from 53% in fiscal 2012. The increase is attributable to the variation in the mix of products sold.

Engineering, Research and Development

Engineering, research and development costs decreased $14,317 to $ 1,313,816 in fiscal 2013 from $1,328,133 in fiscal 2012. While we had planned for an increase in engineering, research and development in the current fiscal year, a lack of resources prevented us from implementing this plan. However, we expect to increase our expenditures in this area in the upcoming fiscal year.

Selling, General and Administrative Expense

Selling, general and administrative increased $317,870 to $13,337,161 in fiscal 2013 from $13,059,291 in fiscal 2012. The increase is due primarily to an increase in legal expense due to the favorable settlement of a lawsuit where the Company was the plaintiff, offset by a decrease in rent, sales and marketing and health insurance.

Non-Operating Income and Expense

Net interest expense increased $1,861,790 to $3,874,328 in fiscal 2013 from $2,012,538 in fiscal 2012. The increase is primarily attributable to the higher level of debt owing to a Board member, which increased from $10,425,000 at the end of fiscal 2012 to $13,819,960 at the end of fiscal 2013, and the amortization associated with the convertible debt issued to institutional investors in the third quarter of the prior fiscal year. Other income increased to $2,114,689 in fiscal 2013 from $682,658 in fiscal 2012 primarily as a result of a favorable legal settlement in the amount of $2,095,000 in the third quarter of the fiscal year. Gain on conversion of $113,023 in the current year is a result of the conversion $259,729 in notes payable and accrued interest and the conversion of $30,000 of accounts payable into 379,248 shares of our common stock.

Net Income/Loss

The increase in our net loss of $994,144 to $15,147,848 in fiscal 2013 from $14,153,704 in fiscal 2012 is primarily a result of the increase in interest expense noted above, the increase in legal expense associated with the settled lawsuit, partially offset by the increase in other income associated with the settled lawsuit.

Fiscal 2012 compared to Fiscal 2011

Revenues

Net revenues in fiscal 2012 decreased $103,974 to $3,335,985 from $3,439,959 in fiscal 2011, a decrease of 3%. The decrease is primarily attributable to decreased sales to a single customer that purchased our 5kw generators as a stand alone product.

Cost of Goods

Cost of goods sold in fiscal 2012 decreased $325,308 to $1,772,155 from $2,097,463 in fiscal 2011. As a percentage of net revenues, cost of goods sold decreased to 53% in fiscal 2012 from 61% in fiscal 2011. The decrease is attributable to the decrease in sales and the variation in the mix of products sold. The decrease in sales to the single customer noted above improved our gross margin as the stand alone 5kw generator carries a lower gross margin than the 8kw and complete systems do.

Engineering, Research and Development

Engineering, research and development costs decreased $333,186 to $1,328,133 in fiscal 2012 from $1,661,319 in fiscal 2011. The decrease is attributable to a slight decrease in the number of employees resulting in lower payroll and payroll related costs, including a reduction of almost 50% in health insurance costs as employees paid a greater share of the premiums, which partially offset increased overall premiums. Additionally, the Company negotiated a lower rent on the production facility resulting in a reduced rent expense.

Selling, General and Administrative Expense

Selling, general and administrative expenses increased $3,234,767 to $13,059,291 in fiscal 2012 from $9,824,524 in fiscal 2011. The increase is primarily due to an increase in stock option compensation expense of $3,774,059, and an increase in legal expense primarily associated with our sale of convertible debt in the third quarter, partially offset by a decrease in salaries due primarily to the resignation of our President in the current year, and a decrease in our rent expense. Stock option compensation expense included in selling, general and administrative expense increased to $3,774,059 in fiscal 2012 from $172,903 in fiscal 2011, an increase of $3,774,059, as a result of the non-cash charges for the issuance of employee stock options in the current year.

Non-Operating Income and Expenses

Net interest expense increased to $2,012,538 in fiscal 2012 from $918,301 in fiscal 2011. The increase is due primarily to increased interest expense on the debt owed to a board member and the amortization associated with the convertible debt issued to institutional investors in the third quarter.

Net Income/Loss

Our net loss in fiscal 2012 increased to $14,153,704 from $11,196,018 in fiscal 2011, an increase of $2,957,686. The increase is primarily a result of the increased stock option and warrant expense of $3,774,059 as noted above. After adjusting for the stock options and warrants issued through fiscal 2012 and fiscal 2011, the net loss in fiscal 2012 decreased by approximately $643,470 from the net loss of fiscal 2011.

Liquidity and Capital Resources

In fiscal 2013, we incurred losses of approximately $15.1 million and had negative cash flows from operations of $6.1 million. In order to fund our cash needs we raised $1.25 million from the sale of our stock in private placements. Additionally, during fiscal 2013, we received periodic advances from a Board member totaling $4.435 million. These advances carry an interest rate of 10% and are due on demand. During fiscal 2013 we repaid $1,040,040 of these advances. As of February 28, 2013, the total amount owing to this Board member is $13.820 million plus accrued interest of $3.446 million. If the Board member were to demand repayment, we do not currently have the resources to make the payment. We also borrowed $2,290,990 in short term notes from individuals, of which $386,000 was repaid. Accrued expenses include $927,984 of accrued wages that has not been paid to certain employees of the Company.

At February 28, 2013, we had cash of approximately $89,000, compared to cash of $6,260 at February 29, 2012. Working capital at February 28, 2013 was a negative $22.0 million as compared to a negative $13.7 million at the end of the prior fiscal year. Accrued expenses increased $582,000 due primarily to the increase of approximately $400,000 in unpaid salaries from the prior year end. At February 28, 2013, we had accounts receivable, net of allowance for doubtful accounts, of approximately $280,000 compared to approximately $800,000 at February 29, 2012. In fiscal 2013 we made no acquisitions of property and equipment. During fiscal 2013, we incurred additional net debt obligations to one of our Board members in the amount of $3,394,960, with an interest rate of 10%.

In the year ended February 28, 2013, we issued 3,866,867 shares of common stock, with 2,033,333 five year warrants attached with an exercise price of $1.00, for cash proceeds of $1,252,100 and the availability for up to an additional $500,000 in loans on favorable terms; 341,748 shares were issued upon the conversion of $259,729 of notes payable and accrued interest with 206,941 five year warrants attached with an exercise price of $1.00; 37,500 shares were issued in settlement of $30,000 of accounts payable with 25,000 five year warrants attached with an exercise price of $1.00; and 415,789 shares were issued for marketing services and investor relation services valued at $316,000.

In the year ended February 29, 2012, we issued 2,460,849 shares of common stock, with 1,288,333 five year warrants attached with exercise prices ranging from $0.50-$0.75, for cash proceeds of $1,453,520; 2,227,612 shares were issued upon the conversion of $1,515,960 of notes payable and accrued interest; 1,006,054 shares were issued in settlement of $656,999 of accounts payable; 2,484,999 shares were issued for marketing services, investor relation services and finders fees valued at $1,129,000; and 3,042,199 shares were issued to employees in lieu of $2,259,865 in unpaid salary.

The national economic slowdown has resulted in numerous delays and cancellations in acquisitions of new equipment, tools and vehicles as well as delays in upgrades of existing equipment and vehicles. At the same time, the economic conditions have created an environment where users are open to discussions and evaluations of equipment that could result in operational savings. In addition, numerous new environmental related rules and regulations that went into effect during 2009 established an atmosphere where users are looking for innovative solutions to address the new regulations as well as new business opportunities. The above conditions may have a significant impact on our planning and business in upcoming fiscal years.

During the next twelve months we plan to continue expanding 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.

In order to achieve the planned results 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 incurred. Based on our business model and projections, as well as historical costs for COGS and other expenses, we determined that the Company would need to raise approximately $10 million in new capital. This would allow us to fund ongoing operations but would not necessarily allow us to pay back our existing debt. We plan to raise the required capital through the private placement of equity, or straight debt.

We are selling systems for all of the applications currently identified in our business model for fiscal 2014. 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, and 20 kW solution. 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 2014 does not contemplate sales for any product currently not available.

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 June 2005 we were forced to file for protection under Chapter 11 of the U.S. Bankruptcy Code, from which we emerged under a court-approved plan of reorganization in January 2006.

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. Currently, we have no binding commitments from third parties to provide financing and we cannot assure you that financing will be available at the times or in the amounts required. The issuance of additional shares of equity in connection with 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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements at page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A(T). CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934, is recorded, processed, summarized and reported within the specified time periods. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to its management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure. As of the end of the period covered by this report, the Company's management evaluated, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures. Based on the evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of February 28, 2013.

Changes in Internal Control Over Financial Reporting

There were no changes in the Company's internal control over financial reporting that occurred during the Company's fiscal quarter ended February 28, 2013, that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

The Company does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent all error and all fraud. A control procedure, no matter how well conceived and operated, can provide only reasonable not absolute, assurance that the objectives of the control procedure are met. Because of the inherent limitations in all control procedures, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any control procedure also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control procedure, misstatements due to error or fraud may occur and not be detected.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with United States generally accepted accounting principles. Internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with United States generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisitions, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the effectiveness of the Company's internal control over financial reporting as of February 28, 2013. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control-Integrated Framework . Based on this assessment, and on those criteria, management concluded that the Company's internal control over financial reporting was effective as of February 28, 2013.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Directors and Executive Officers

The following table sets forth the names, ages and offices of all of our directors and management. Our officers are appointed by, and serve at the pleasure of, the Board of Directors. The stockholders at the annual meeting elect our directors to serve until the next meeting.

Name	Age	Title
Melvin Gagerman	70	Chief Executive Officer, Chief Financial Officer, and Chairman of the Board of Directors
James Marvin Simmons	63	Director, Chairman of the Nominating Committee, Member of the Compensation Committee and Audit Committee
Warren Breslow	69	Director, Chairman of the Audit Committee, Member of the Nominating Committee and Compensation Committee
Salvador Diaz-Verson, Jr.	57	Director, Chairman of the Compensation Committee, Member of the Audit Committee and Nominating Committee
Roger L. Howsmon	68	Director, Member of the Nominating Committee and Compensation Committee
Lon E. Bell Ph.D.	72	Director, Member of the Nominating Committee and Compensation Committee

Biographical information with respect to our directors and management is provided below.

Melvin Gagerman. Mr. Gagerman is a CPA and has been a director and our Chief Executive Officer and Chief Financial Officer since we emerged from Chapter 11 proceedings on January 31, 2006. As Chief Executive Officer Mr. Gagerman formulates policies, defines our values, directs the operations of the business and defines our corporate culture. He is also responsible for overseeing our other executive officers. Mr. Gagerman has many years of experience in performing these duties and a strong background in accounting and financing. Prior to joining Aura, Mr. Gagerman served as the Chief Executive Officer of a number of companies including Surface Protection Industries and Applause. Mr. Gagerman has also served as Managing Partner of Good, Gagerman & Berns, an accounting firm, National Audit Partner for Laventhol and Horwath, and Audit Supervisor at Coopers and Lybrand. As the Chairman of the Board, Mr. Gagerman’s background and experience provides the Board with a solid understanding of the business issues and financial planning and execution required by the business. Mr. Gagerman is currently serving as our Chief Financial Officer while we search for a permanent candidate for that position.

James Simmons. Mr. Simmons has been a director since October 2011. He has a B.A degree in Economics and is the Chief Executive Officer and Chief Investment Officer of ICM Asset Management, Inc, which he founded in 1981 in Spokane, WA. The firm offers investment management services for individuals, businesses, and foundations utilizing small and large cap equity investments as well as fixed income investments, with a particular emphasis on small capitalization companies. Mr. Simmons is a Chartered Financial Analyst with approximately 40 years of experience in investing. He has been a member of the board of directors of various for-profit and nonprofit companies. He has also been the managing member of Koyah Partners, LLC, an investment partnership that emphasized venture investing in very small companies, both public and private. Mr. Simmons knowledge and experience in finance provides the Board with an understanding of the principles of valuation and financial positioning as they apply to the Company. In addition, his many years of investment experience provides us with a better understanding of operational performance and business transactions that provide added value to us and to our shareholders.

Warren Breslow. Mr. Breslow is a CPA and has been a director and Chairman of the Audit Committee since we emerged from Chapter 11 bankruptcy proceedings on January 31, 2006. Mr. Breslow is the General Partner and Chief Financial Officer of Goldrich & Kest Industries ("G & K Industries"). He joined G & K Industries in 1972 as controller and assumed his current position as General Partner and Chief Financial Officer in 1974. As General Partner and Chief Financial Officer of G & K Industries, Mr. Breslow oversees the financial aspects of its construction activity, as well as its management operations and information systems center. He is also the past president and a lifetime member of the board of directors of the Stephen S. Wise Temple, and supports numerous charitable and civic organizations. Prior to his association with G & K Industries, Mr. Breslow was a manager with the international accounting firm of Laventhol & Horwath. We believe that Mr. Breslow's extensive financial and accounting experience uniquely qualifies him for the position of Chairman of the Audit Committee.

Salvador Diaz-Verson, Jr. Mr. Diaz-Verson has served as a director since June 2007. He previously served as one of our directors from 1997 to 2005. Mr. Diaz-Verson is the founder, Chairman and President of Diaz-Verson Capital Investments, Inc., an investment adviser registered with the Securities and Exchange Commission, where he has served since 1991. Mr. Diaz-Verson served as President and member of the board of directors of American Family Corporation (AFLCAC Inc.), from 1979 until 1991. Mr. Diaz-Verson also served as Executive Vice President and Chief Investment Officer of American Family Life Assurance Company, a subsidiary of AFLAC Inc., from 1976 through 1991. He is currently a director of the board of Miramar Securities, Clemente Capital Inc., Regions Bank of Georgia and The Philippine Strategic Investment Holding Limited. Since 1992, Mr. Diaz-Verson has also been a member of the Board of Trustees of the Christopher Columbus Fellowship Foundation, appointed by President George H.W. Bush in 1992, and re-appointed by President Clinton in early 2000. Mr. Diaz-Verson is a graduate of Florida State University. Mr. Diaz-Verson has been selected to serve as a director in view of his lengthy experience in managing companies and his knowledge of capital investment.

Lon E. Bell, Ph.D. Dr. Bell was appointed to our Board of Directors in November 2011. He earned a Ph.D. in Mechanical Engineering in 1968 all from the California Institute of Technology. He has authored more than 40 publications in the areas of thermodynamics of thermoelectric systems, automotive crash sensors, and other electronic and electromechanical devices. He has been granted over 100 patents for his inventions. Five clusters of Dr. Bell's inventions have gone into mass production, and dominated their target markets, generating over $1 billion in sales. Currently he serves on the boards of Amerigon Incorporated, Mahindra-Reva and Dais Analytic Corporation. He is a Member of Scientific Advisory Boards of California Institute of Technology's Mechanical Engineering Department, University of California at Santa Barbara's Institute for Energy Efficiency and Michigan State University's Energy Frontier Research Center and Alphabet Energy. Dr. Bell is a leading expert in the design and mass production of electromechanical systems and thermoelectric products. Dr. Bell was a cofounder of Calstart and later Mahindra Reva and in 1993 he was the founder of Amerigon. Previously, Dr. Bell co-founded Technar Incorporated, which developed and manufactured proprietary automotive sensors and controls. Dr. Bell served as Technar's Chairman and President until selling majority ownership to TRW Inc. in 1986. Dr. Bell continued managing Technar, then known as TRW Technar, as its President until 1991. Dr. Bell has been selected to serve as a director in view of his extensive scientific knowledge, particularly his knowledge of the design and mass production of electromechanical systems and thermoelectric products. We believe that Dr. Bell's experience will be instrumental in assisting us with the expansion of our business.

Roger L. Howsmon. Mr. Howsmon was recently appointed to our Board of Directors November 2011. He has a long and broad-based international and domestic experience in manufacturing, distribution, strategic planning, tactical execution, P&L responsibility, sales and marketing, and global operations with emphasis in international supply chain management. His experience includes responsibility for marketing, sale and distribution of Blue Bird school buses, responsibility for the manufactured housing group of Fleetwood Enterprises Inc. consisting of almost $1 billion in revenue, 23 manufacturing centers, more than 130 retail centers, more than 1,100 independent distributors, an in-house finance organization and 5,000 associates in 26 states. He also served as President and Chief Executive Officer and was a stockholder in GPG, Inc., a private equity venture with major investors such a Fleet-BancBoston Capital, Black Diamond Capital and GE Capital. Prior to GPG, Inc., Mr. Howsmon was Chairman and Chief Executive Officer as well as the owner of Sierra Detroit Diesel Allison in San Francisco, the General Manager and Chief Operating Officer with responsibility for a billion-dollar plus division of Paccar, President of Perkins Engines Inc., were he reported to the parent company located in Peterborough, England, and Vice President, North American Sales and Service for Cummins Engine. Mr. Howsmon was a captain in the United States Air Force, Intelligence Officer and has a Bachelor of Science degree from Miami University, in Oxford, Ohio, Graduate Study at the University of Southern California and the Executive Management Program at Stanford University. Mr. Howsmon's extensive experience in all aspects of managing businesses, as well as his experience with international business management, led us to believe that he would be a suitable candidate for our Board.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), requires our officers and directors, and beneficial owners of more than ten percent of the common stock, to file with the Securities and Exchange Commission and the National Association of Securities Dealers, Inc. reports of ownership and changes in ownership of the common stock. During the year ended February 28, 2013, Warren Breslow, a director, was granted options to purchase 2,100,000 shares of common stock for which he failed to file a Form 4, Lon Bell, a director, was granted options to purchase 100,000 shares of common stock for which he failed to file a Form 4, Salvador Diaz-Verson, a director, was granted options to purchase 100,000 shares of common stock for which he failed to file a Form 4, Melvin Gagerman, a director and CEO, was granted options to purchase 1,100,000 shares of common stock for which he failed to file a Form 4, Roger Howsmon, a director, was granted 100,000 options for which he failed to file a Form 4, and Harry Kurtzman, a 10% beneficial owner, who is not an officer or director, was granted 1,000,000 options for which he failed to file a Form 4.

Code of Ethics

We have a Code of Ethics for all of our employees, including our Chief Executive Officer, Chief Financial Officer and Principal Accounting Officer. The purpose of the Code is to ensure that our business is conducted in a consistently legal and ethical matter. A copy of our Code of Ethics is included as an exhibit to this Annual Report on Form 10-K.

Director Independence

Using the definition of “independence” included in the listing rules of The Nasdaq Stock Market, our Board is comprised of a majority of independent directors. Our independent directors are Messrs. Simmons, Breslow, Bell, Howsmon and Diaz-Verson. Messrs. Gagerman is not an independent director using the definition of independence included in the Nasdaq listing rules. There are no family relationships among our executive officers and directors.

Committees of the Board of Directors

The Board maintains the following committees to assist it in discharging its oversight responsibilities.

Audit Committee. The Audit Committee does not have a formal charter but is responsible primarily for overseeing the services performed by our independent registered public accounting firm, evaluating our accounting policies and system of internal controls, and reviewing our annual and quarterly reports before filing with the Securities and Exchange Commission. The current members of the Audit Committee are Mr. Warren Breslow, (Chairperson), Mr. James Simmons and Mr. Salvador Diaz-Verson. Our Board has determined that Mr. Breslow is an “audit committee financial expert”.

Compensation Committee. The Compensation Committee does not have a formal charter however the committee reviews and recommends to the full Board the amounts and types of compensation to be paid to the Chairman and Chief Executive Officer; reviews and approves the amounts and types of compensation to be paid to our other executive officers and the non-employee directors; reviews and approves, on behalf of the Board, salary, bonus and equity guidelines for our other employees; and administers our 2006 Stock Option Plan. The Compensation Committee is currently comprised of Mr. Diaz-Verson (Chairperson), Mr. Breslow and Mr. Simmons. Mr. Breslow has provided loans to us in the amount of $13,819,960. For a discussion about Mr. Breslow’s loans to us, please see the section of this prospectus titled “Certain Relationships and Related Party Transactions”.

Nominating Committee. The Nominating Committee does not have a formal charter but assists the Board in identifying qualified individuals to become directors, determines the composition of the Board and its committees, monitors the process to assess the Board’s effectiveness and helps develop and implement our corporate governance guidelines. The Nominating Committee also considers nominees proposed by shareholders. The Nominating Committee currently consists of Mr. Simmons (Chairperson), Mr. Howsmon, Mr. Bell and Mr. Diaz-Verson.

Director Compensation

Although we do not currently compensate our directors in cash for their service as members of our Board of Directors, the Board may, in its discretion, elect to compensate directors for attending Board and Committee meetings and to reimburse directors for out-of-pocket expenses incurred in connection with attending such meetings. Additionally, our directors are eligible to receive options under the 2011 Directors and Executive Officer Stock Option Plan, and have received stock options under our 2006 Stock Option Plan and Director Warrants authorized under our 2006 Chapter 11 Plan or Reorganization. There are no payments due to any Directors upon their resignation or retirement as members of the Board.

ITEM 11. EXECUTIVE COMPENSATION

The following table summarizes all compensation earned for the fiscal years ended February 28, 2013 and February 29, 2012, to the individual who served as our chief executive officer during fiscal 2013, and the two other most highly compensated executive officers who were serving in such capacity as of February 28, 2013 (the "named executive officers").

2013 Summary Compensation Table

Name and Principal Position	Fiscal Year	Salary ($)	Option Awards ($) (2)	Non-Equity Incentive Plan Compensation	All Other Compen sation ($)	Total ($)
Melvin Gagerman (1)	2013	360,000	344,295	-	22,891(3)	727,186
Chief Executive Officer,						
Chief Financial Officer	2012	360,000	376,747	-	23,359(3)	760,106

(1) Mr. Gagerman was elected Chairman and Chief Financial Officer effective February 1, 2006 and was elected President and Chief Executive Officer effective May 25, 2006. Of this amount approximately $55,000 was accrued and not paid due to a lack of funds.
(2) Reflects the fair market value amount at the date of grant using the assumptions set forth in Note 9 to the financial statements included elsewhere in this Annual Report.
(3) Represents automobile and country club dues allowances, the cost of life insurance premiums, and medical expense reimbursements.

Mr. Gagerman converted $758,213 of unpaid salary from fiscal years 2010, 2011 and 2012 into our common stock during fiscal 2012.

No bonuses or stock awards were granted to the above individuals for the 2013 or 2012 fiscal years.

Outstanding Equity Awards at 2013 Fiscal Year-End

The following table summarizes certain information regarding the number and value of all options to purchase our common stock held by the individuals named in the Summary Compensation Table at February 28, 2013. No stock awards or equity incentive plan awards were issued or outstanding during fiscal 2013.

2013 OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END

	Option Awards				
Name	**Number of Securities Underlying Unexercised Options (#) Exercisable**	**Number of Securities Underlying Unexercised Options (#) Un-exercisable**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**
Melvin Gagerman	1,100,000	0	--	$0.75	2/28/20
Melvin Gagerman	1,400,000	0	--	$0.75	6/18/14
Melvin Gagerman	1,000,000	0	--	$1.00	8/25/16

Option Exercises and Stock Vesting During 2013

No stock options were exercised during fiscal 2013 by the individuals named in the Summary Compensation Table. No stock awards were issued or outstanding during fiscal 2013.

Employment Contracts, Termination of Employment Contracts and Change in Control Arrangements

Gagerman Employment Agreement

Effective November 1, 2006, we entered into a written employment agreement with Melvin Gagerman (the "Gagerman Agreement") regarding the terms and conditions of his employment as CEO. The Gagerman Agreement originally was in effect through February 28, 2010, and, commencing March 1, 2007, is automatically extended by an additional year at the beginning of each fiscal year unless we give prior notice of our intent not to extend the agreement. At February 29, 2012, the Company did not extend the agreement and Mr. Gagerman has expressed his intent to retire. Accordingly, the Gagerman Agreement is currently in effect until February 28, 2014. The agreement may be terminated before its stated expiration by either of the parties under specified terms and conditions Following are the material terms of the Gagerman Agreement.

Base Salary and Annual Bonus.

Mr. Gagerman is entitled to a base salary of $360,000 per year. The Gagerman Agreement also provides for an annual bonus to be approved by the Board of Directors of up to $100,000 based on objective and subjective milestones and, in the case of the 2007 fiscal year, provided the company has the available cash, and an additional annual bonus at the discretion of the Board of Directors of up to $100,000 for achievements in excess of expected milestones. The initial qualitative milestones and their quantitative relative weight were specified in the Gagerman Agreement for fiscal 2007, fiscal 2008 and fiscal 2009, and relate to achievement of specified business, financial and organizational performance goals. The Company may change both the qualitative goals and relative weight of the goals by giving notice to Mr. Gagerman prior to the fiscal quarter that the change will take effect. In addition, we retain the discretion under the Gagerman Agreement to pay an annual bonus regardless of whether the stated milestones are achieved. Bonuses are payable within 45 days after the end of the applicable fiscal year.

Stock Options

The Gagerman Agreement provides for him to receive options to purchase 300,000 shares of common stock at an exercise price of $2.00 per share, of which 50,000 options are designated for tax purposes as "incentive stock options" and the remaining options are non-qualified options. The Gagerman Agreement originally provided for an option term of three years, which was subsequently extended to five years. The options vest at the rate of 25,000 per month. Unvested options vest if the Gagerman Agreement is terminated by either party under specified circumstances. All of these options vested as of November 2007. In addition to the 300,000 options granted under the Gagerman Agreement, Mr. Gagerman has been granted an additional 700,000 options and warrants, described elsewhere in this Report, and remains eligible for future equity compensation awards. In June of 2009, all outstanding options granted to Mr. Gagerman were cancelled with his agreement, and 1,400,000 new five year options exercisable at $1.50 were granted.

Life Insurance, Dues and Car Allowance

The Gagerman Agreement requires us to pay life insurance premiums on his private life insurance policy, up to $7,500 per year. Mr. Gagerman is also entitled to receive $2,000 per month as an automobile allowance and country club dues, and reimbursement of the country club initiation fee of up to $8,000.

Medical Benefits

In addition to health and dental insurance generally available to all of our employees, Mr. Gagerman is also entitled to receive reimbursement of up to $15,000 per year for all non-covered medical and dental expenses for himself and his spouse, including deductibles and co-payments. His agreement also entitles him to reimbursement for the cost of long term care insurance.

Early Termination of Agreement

The Gagerman Agreement provides that either party may terminate the agreement prior to its stated term upon occurrence of the following events:

- <u>Death or Permanent Disability</u> – The agreement automatically terminates upon Mr. Gagerman's death or disability (as determined under our Long-Term Disability Plan, which provides for a benefit of 50% of his monthly salary to a maximum of $6,000 per month).

- <u>By the Company For Cause</u> - We may terminate the agreement for "cause". The agreement defines "cause" to include:

- a breach by Mr. Gagerman of his obligations not to compete with us during the term of his employment;
- a breach by Mr. Gagerman of his obligation to maintain confidential information
- commission of an act of fraud, embezzlement or dishonesty which is injurious to us;
- intentional misconduct which is detrimental to our business or reputation

- <u>By the Company for Non-Performance</u> – We may terminate the agreement upon 120 days prior notice in the event of "non-performance" by Mr. Gagerman. The agreement defines "non-performance" to mean a determination by not less than 75% of the members of our Board of Directors that Mr. Gagerman is not performing his duties as CEO and the continuation of the non-performance for 15 days after receiving notice of the Board's determination.

- <u>By The Company Without Cause or Non-Performance</u> – We may terminate the agreement upon not less than 12 months notice, without regard to Mr. Gagerman's performance.

- <u>By Mr. Gagerman For Cause</u> – Mr. Gagerman may terminate the agreement for "cause" upon not less than 45 days notice. The agreement defines "cause" to include:

    - A change in his job responsibilities resulting from a demotion; and
    - His removal as a member of the Board of Directors.

- By Mr. Gagerman Without Cause – Mr. Gagerman may terminate the agreement upon not less than 120 days notice without regard to whether we are meeting our obligation under the agreement.

- By Mr. Gagerman Upon a Change of Control - Mr. Gagerman may terminate the agreement upon not less than 30 days notice at any time following a "change in control." The agreement defines change of control to mean:

- The acquisition by a new investor of more than 50% of our common stock, or
- The change of a majority of our board members either by an individual or by one or more groups acting together.

Severance Benefits Upon Termination

Base Salary and Bonus. Upon the termination of Mr. Gagerman's employment as CEO, he is entitled to receive accrued salary, unpaid bonus payments (if any) through the effective date of his termination.

Employee Benefits. All employee benefits, including life insurance premiums and automobile and dues allowances, cease to accrue as of the date of termination.

Stock Options – Upon the termination of Mr. Gagerman's employment as CEO the portion of the 300,000 options which are vested as of the date of termination remain exercisable in accordance with their terms. The unvested portion of the 300,000 options terminate upon termination of the agreement unless:

- termination is a result of a "change in control"; or
- We terminate the agreement other than for "cause" or "non-performance."

in which case the unvested options become fully exercisable upon termination. All of these options were fully vested as of November 2007.

Lump Sum Severance Payment - Under the terms of the agreement Mr. Gagerman is entitle to a lump sum severance payment within 45 days of termination equal to the greater of one year's base salary ($360,000), or the unpaid balance of the base salary which would have been payable if Mr. Gagerman remained employed through the stated term of employment in effect immediately prior to the termination if:

- termination is a result of a "change in control";
- Mr. Gagerman terminates the agreement for "cause"; or
- We terminate the agreement other than for "cause" or "non-performance."

Each of these events is referred to as a "severance payment event."

Potential Payments to the Named Executive Officers Upon Termination or Change in Control

Other than the benefits provided for in Mr. Gagerman's written employment agreement, which is described above, none of the named executive officers are entitled to any payments or benefits upon termination, whether by change in control or otherwise, other than benefits available generally to all employees.

Upon the occurrence of a severance payment event for Mr. Gagerman, assuming he were terminated as of February 28, 2013, he would be entitled to a severance payment of $360,000, payable within 45 days of the date of his termination.

Director Compensation During Fiscal 2013

The following table summarizes all compensation paid to directors other than named executive officers during fiscal 2013.

2013 DIRECTOR COMPENSATION TABLE

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Option Awards ($) (1)(2)	Non-Equity Incentive Plan Compensation ($)	All Other Compensation ($)	Total ($)
James Simmons (3)	-	-	31,300	-	-	31,300
Warren Breslow (4)	-	-	657,290	-	-	657,290
Salvador Diaz-Verson, Jr. (5)	-	-	31,300	-	-	31,300
Lon E. Bell	-	-	31,300	-	-	31,300
Roger Howsmon	-	-	31,300	-	-	31,300

(1) Reflects the fair market value amount at the date of grant using the assumptions set forth in Note 9 to the financial statements included elsewhere in this Annual Report.

(2) In fiscal 2013 Mssrs. Simmons, Diaz-Verson, Bell and Howsmon were each granted director warrants (options) to acquire 100,000 shares of our common stock at an exercise price of $0.75 per share, and Mr. Breslow was granted 2,100,000 director warrants(options) of our common stock at an exercise price of $0.75 per share, being not less than the fair market value on the date of grant, which options vest immediately and expire in February 2020. In fiscal 2012 Mssrs. Simmons, Diaz-Verson, Bell and Howsmon were each granted director warrants (options) to acquire 200,000 shares of our common stock at an exercise price of $1.00 per share, and Mr. Breslow was granted 1,300,000 Director Warrants(options) of our common stock at an exercise price of $1.00 per share, being not less than the fair market value on the date of grant, which options vest immediately and expire in June 2014. In fiscal 2011 Messrs. Diaz-Verson and Breslow were each granted Director Warrants(options) to acquire 50,000 shares of our common stock at an exercise price of $0.75 per share In fiscal 2010 Mr. Diaz-Verson was granted Director Warrants(options) to acquire 300,000 shares of our common stock at an exercise price of $1.50 per share, and Mr. Breslow was granted 1,300,000 Director Warrants(options) of our common stock at an exercise price of $1.50 per share, being not less than the fair market value on the date of grant, which options vest immediately and expire in June 2014.

(3) The director had 300,000 options outstanding as of February 28, 2013.

(4) The director had 6,375,000 options outstanding as of February 28, 2013.

(5) The director had 675,000 options outstanding as of February 28, 2013.

(6) The director had 300,000 options outstanding as of February 28, 2013.

(7) The director had 300,000 options outstanding as of February 28, 2013.

Our Board of Directors may, at its discretion, compensate directors for attending board and committee meetings and reimburse the directors for out-of-pocket expenses incurred in connection with attending such meetings. Our directors are also eligible to receive stock option grants under our 2006 employee stock option plan and Director Warrants authorized under our Chapter 11 Plan of Reorganization.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth, to the extent of our knowledge, certain information regarding our common stock owned as of May 17, 2013 (i) by each person who is known to be the beneficial owner of more than 5% of our outstanding common stock, (ii) by each of our Directors and the named executive officers in the Summary Compensation Table, and (iii) by all Directors and current executive officers as a group:

Beneficial Ownership Table

Beneficial Owner	Number of Shares of Common Stock	Percent of Common Stock (1)
Melvin Gagerman (2)	7,796,801	8.7%
Warren Breslow (3)	7,937,966	8.6%
Salvador Diaz-Verson, Jr. (4)	790,934	*
James Simmons(5)	3,032,383	3.6%
Lon E. Bell(6)	300,000	*
Roger Howsmon(7)	320,000	*
All current executive officers and Directors as a group (six)	20,178,084	20.6%
5% Shareholders		
Harry Kurtzman(8)	9,285,955	10.1%

* Less than 1% of outstanding shares.

(1) Beneficial ownership is determined in accordance with rules of the Securities and Exchange Commission. The calculation of the percentage of beneficial ownership is based upon 84,114,499 shares of common stock outstanding on May 17, 2013. In computing the number of shares beneficially owned by any shareholder and the percentage ownership of such shareholder, shares of common stock which may be acquired by a such shareholder upon exercise or conversion of warrants or options which are currently exercisable or exercisable within 60 days of May 17, 2013, are deemed to be exercised and outstanding. Such shares, however, are not deemed outstanding for purposes of computing the beneficial ownership percentage of any other person. Shares issuable upon exercise of warrants and options which are subject to shareholder approval are not deemed outstanding for purposes of determining beneficial ownership. Except as indicated by footnote, to our knowledge, the persons named in the table above have the sole voting and investment power with respect to all shares of common stock shown as beneficially owned by them.
(2) Includes 5,675,258 warrants and options exercisable within 60 days of May 17, 2013.
(3) Includes 6,573,901 warrants and options exercisable within 60 days of May 17, 2013.
(4) Includes 723,489 warrants and options exercisable within 60 days of May 17, 2013.
(5) This beneficial owner is CEO and Chief Investment Officer of ICM Asset Management, Inc., through which he has dispositive control and voting rights over these shares. The address for this beneficial owner is 601 W. Main Ave., Suite 600, Spokane WA 99201.
(6) Includes 300,000 warrants and options exercisable within 60 days of May 17, 2013.
(7) Includes 300,000 warrants and options exercisable within 60 days of May 17, 2013.
(8) Includes 7,430,054 options and warrants exercisable within 60 days of May 17, 2013.

The mailing address for the officers and directors is c/o Aura Systems, Inc., 1310 E. Grand Ave., El Segundo, CA 90245.

Securities Authorized for Issuance Under Equity Compensation Plans as of February 28, 2013

Equity Compensation Plan Information as of February 28, 2013

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a) (c)
Equity compensation plans approved by security holders (1)	8,548,000	$ 0.75	-
Equity compensation plans not approved by security holders	15,625,000	$ 0.75	-

(1) Reflects options under the 2006 Stock Option Plan. The 2006 Stock Option Plan authorizes the Company to grant stock options exercisable for up to an aggregate number of shares of common stock equal to the greater of (i) 3,000,000 shares of common stock, or (ii) 10% of the number of shares of common stock outstanding from time to time. The numbers in this table are as of February 28, 2013.

For additional information regarding options and warrants, see Note 10 to our financial statements appearing elsewhere in this report.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Related Transactions

Since the beginning of the 2013 fiscal year, Mr. Breslow, a director, has made various temporary advances to the Company totaling $5,385,000. The highest amount outstanding at any one time was $14,760,000, and as of May 10, 2013, there was an outstanding balance of $13,819,960. Interest on the advances was at a rate of 10% per annum and totaled $1,307,763 for the year ended February 28, 2013. As of May 10, 2013, the outstanding accrued interest totaled approximately $ 3,710,000. Repayments of $1,140,040 were made to Mr. Breslow in the current fiscal year.

Review and Approval of Related Party Transactions

Our Audit Committee is responsible for the review and approval of all related party transactions required to be disclosed to the public under SEC rules. This procedure, which is contained in the written charter of our Audit Committee, has been established by our Board of Directors in order to serve the interests of our shareholders. Related party transactions are reviewed and approved by the Audit Committee on a case-by-case basis. Under existing, unwritten policy no related party transaction can be approved by the Audit Committee unless it is first determined that the terms of such transaction is on terms no less favorable to us than could be obtained from an unaffiliated third party on an arms-length basis and is otherwise in our best interest.

Director Independence

Our Board is comprised of a majority of independent directors under the rules of the SEC and the listing standards of NASDAQ. Our independent directors are Messrs. Howsmon, Bell, Breslow, and Diaz-Verson. Our Board has determined that each member of the Audit Committee, Compensation Committee and Nominating Committee is independent under such rules and standards. Messr. Gagerman is not an independent director under applicable SEC rules.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND DISCLOSURES

The Audit Committee regularly reviews and determines whether specific non-audit projects or expenditures with our independent auditors potentially affect their independence. The Audit Committee's policy is to pre-approve all audit and permissible non-audit services provided by our independent auditors. Pre-approval is generally provided by the Audit Committee for up to one year, as detailed as to the particular service or category of services to be rendered, as is generally subject to a specific budget. The Audit Committee may also pre-approve additional services of specific engagements on a case-by-case basis.

The following table sets forth the aggregate fees billed to us by Kabani & Co. for the years ended February 28, 2013, and February 29, 2012:

	Year Ended February 28,	
	2013	**2012**
Audit Fees(1)	$ 82,500	$ 82,500
Audit-related fees(2)	-	-
Tax fees(3)	-	-
All other fees	-	-
Total	$ 82,500	$ 82,500

(1) Included fees for professional services rendered for the audit of our annual financial statements and review of our annual report on Form 10-K and for reviews of the financial statements included in our quarterly reports on Form 10-Q for the first three quarters of the years ended February 28, 2013 and February 29, 2012.
(2) Includes fees for professional services rendered in connection with our evaluation of internal controls.
(3) Includes fees for professional services rendered in connection with the preparation of our income tax returns.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Auditors

The Audit Committee pre-approves all audit and permissible non-audit services provided by our independent auditors. These services may include audit services, audit-related services, tax and other services. Pre-approval is generally provided for up to one year, and any pre-approval is detailed as to the particular service or category of services and is generally subject to a specific budget. The independent auditors and management are required to periodically report to the Audit Committee regarding the extent of services provided by the independent auditors in accordance with this pre-approval, and the fees for the services performed to date. The Audit Committee may also pre-approve particular services on a case-by-case basis. During fiscal 2013 and 2012 all services provided by Kabani and Company were pre-approved by the Audit Committee in accordance with this policy.

There were no hours expended on the principal accountant's engagement to audit the registrant's financial statements for the most recent fiscal year that were attributed to work performed by persons other than the principal accountant's full-time, permanent employees.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Documents filed as part of this Form 10-K:

1. Financial Statements

See Index to Consolidated Financial Statements at page F-1

2. Financial Statement Schedules

See Index to Consolidated Financial Statements at page F-1

3. Exhibits

See Exhibit Index

INDEX TO EXHIBITS

Description of Documents

2.1 First Amended Plan of Reorganization of Aura Systems, Inc.(2)
3.1 Amended and Restated Certificate of Incorporation of Aura Systems, Inc. (1)
3.2 Amended and Restated Bylaws of Aura Systems, Inc. as amended to date. (1)
10.1 Form of Unsecured Creditor Warrants issued under First Amended Plan of Reorganization of the Company. (3)
10.2 Form of Management Warrants issued under First Amended Plan of Reorganization of Aura Systems, Inc.(3)
10.3 Form of Director Warrants issued under First Amended Plan of Reorganization of t Aura Systems, Inc. (3)
10.4 Aura Systems, Inc. 2006 Stock Option Plan. (3)
10.5 Form of Aura Systems, Inc. Non-Statutory Stock Option Agreement. (3)
10.6 Employment Agreement dated January 4, 2007, by and between the Company and Melvin Gagerman. (3)
10.7 Full Release dated as of January 31, 2006, by Aura Systems, Inc. for the benefit of Koyah Leverage Partners, L.P., Koyah Partners, L.P. Koyah Ventures LLC, Raven Partners, L.P., Koyah Microcap Partners Master Fund, L.P. and James M. Simmons. (3)
10.8 Consolidated, Amended and Restated Security Agreement dated as of January 31, 2006, by Aura Systems, Inc. for the benefit of Koyah Leverage Partners, L.P., Koyah Partners, L.P. Koyah Ventures LLC, Raven Partners, L.P., and Koyah Microcap Partners Master Fund, L.P. (3)
10.9 Consolidated, Amended and Restated Stock Pledge Agreement dated as of January 31, 2006, by Aura Systems, Inc. for the benefit of Koyah Leverage Partners, L.P., Koyah Partners, L.P. Koyah Ventures LLC, Raven Partners, L.P., and Koyah Microcap Partners Master Fund, L.P. (3)
10.10 Amended and Restated Intercreditor Agreement dated as of January 31, 2006, by and among Aura Systems, Inc., Koyah Leverage Partners, L.P., Koyah Partners, L.P. Koyah Ventures LLC, Raven Partners, L.P., and Koyah Microcap Partners Master Fund, L.P. (3)
10.11 Amended and Restated Promissory Note dated January 31, 2006, by Aura Systems, Inc. in favor of Raven Partners, L.P. (3)
10.12 Amended and Restated Promissory Note dated January 31, 2006, by Aura Systems, Inc. in favor of Koyah Ventures, LLC (3)
10.13 Consolidated, Amended and Restated Promissory Note dated January 31, 2006, by Aura Systems, Inc. in favor of Koyah Partners, L.P. (3)
10.14 Consolidated, Amended and Restated Promissory Note dated January 31, 2006, by Aura Systems, Inc. in favor of Koyah Microcap Partners Master Fund, L.P. (3)
10.15 Consolidated, Amended and Restated Promissory Note dated January 31, 2006, by Aura Systems, Inc. in favor of Koyah Leverage Partners, L.P. (3)
10.16 Lease between Aura Systems Inc., and Alliance Commercial Partners (3)
10.17 Lease between Aura Systems Inc., and Derek Lidow as Trustee for the Lidow Family Trust and Alexander Lidow (3)
10.18 Form of 7% Convertible Subordinated Debenture (4)
10.19 Asset Purchase Agreement by and among Aura Systems, Inc. and Emerald Commercial Leasing, Inc. (4)
10.20 Mutual Agreement Ending AuraGen Distributorship Exclusivity between Emerald Commercial Leasing, Inc. and Aura Systems Inc.(4)
10.21 Employment Agreement Dated May 15, 2008, by and between Joseph Dickman and the Company. (4)
10.22 Conversion Agreement dated as of September 1, 2008, by and among Aura Systems, Inc., Koyah Leverage Partners, L.P., Koyah Partners, L.P. Koyah Ventures LLC, and Raven Partners, L.P. (5)
10.23 Distributorship Agreement dated February 27, 2009, by and between Aura Systems, Inc. and WePower LLC. (6)
10.24 Executive Employment Agreement by and between Don Macleod and Aura Systems, Inc. (7)
10.25 Strategic Alliance Agreement dated March 18, 2010, by and between Aura Systems, Inc. and Zanotti East Inc.
10.26 Amended and Restated Distributorship Agreement dated March 19, 2009, by and between Aura Systems, Inc. and WePower LLC (7)
10.27 Demand Promissory Note dated December 18, 2007 by and between the Company and Warren Breslow in the original principal amount of $500,000. (8)
10.28 Demand Promissory Note dated June 18, 2008 by and between the Company and Warren Breslow in the

original principal amount of $200,000. (8)
10.29 Demand Promissory Note dated August 1, 2008 by and between the Company and Warren Breslow in the original principal amount of $200,000. (8)
10.30 Demand Promissory Note dated October 14, 2008 by and between the Company and Warren Breslow in the original principal amount of $200,000. (8)
10.31 Demand Promissory Note dated October 23, 2008 by and between the Company and Warren Breslow in the original principal amount of $200,000. (8)
10.32 Demand Promissory Note dated December 18, 2008 by and between the Company and Warren Breslow in the original principal amount of $500,000. (8)
10.33 Demand Promissory Note dated March 12, 2009 by and between the Company and Warren Breslow in the original principal amount of $200,000. (8)
10.34 Demand Promissory Note dated April 24, 2009 by and between the Company and Warren Breslow in the original principal amount of $500,000. (8)
10.35 Demand Promissory Note dated June 1, 2009 by and between the Company and Warren Breslow in the original principal amount of $20,000. (8)
10.36 Demand Promissory Note dated June 30, 2009 by and between the Company and Warren Breslow in the original principal amount of $500,000. (8)
10.37 Demand Promissory Note dated August 13, 2009 by and between the Company and Warren Breslow in the original principal amount of $400,000. (8)
10.38 Demand Promissory Note dated August 27, 2009 by and between the Company and Warren Breslow in the original principal amount of $500,000. (8)
10.39 Demand Promissory Note dated October 22, 2009 by and between the Company and Warren Breslow in the original principal amount of $480,000. (8)
10.40 Demand Promissory Note dated December 4, 2009 by and between the Company and Warren Breslow in the original principal amount of $250,000. (8)
10.41 Demand Promissory Note dated January 4, 2010 by and between the Company and Warren Breslow in the original principal amount of $250,000. (8)
10.42 Demand Promissory Note dated January 29, 2010 by and between the Company and Warren Breslow in the original principal amount of $250,000. (8)
10.43 Demand Promissory Note dated April 7, 2010 by and between the Company and Warren Breslow in the original principal amount of $400,000. (8)
10.44 Demand Promissory Note dated May 7, 2010 by and between the Company and Warren Breslow in the original principal amount of $100,000. (8)
10.45 Demand Promissory Note dated May 11, 2010 by and between the Company and Warren Breslow in the original principal amount of $400,000. (8)
10.46 Demand Promissory Note dated May 28, 2010 by and between the Company and Warren Breslow in the original principal amount of $150,000. (8)
10.47 Demand Promissory Note dated June 3, 2010 by and between the Company and Warren Breslow in the original principal amount of $350,000. (8)
10.48 Demand Promissory Note dated June 15, 2010 by and between the Company and Warren Breslow in the original principal amount of $500,000. (8)
10.49 Demand Promissory Note dated July 2, 2010 by and between the Company and Warren Breslow in the original principal amount of $300,000. (8)
10.50 Demand Promissory Note dated October 8, 2010 by and between the Company and Warren Breslow in the original principal amount of $200,000. (8)
10.51 Demand Promissory Note dated November 3, 2010 by and between the Company and Warren Breslow in the original principal amount of $300,000. (8)
10.52 Demand Promissory Note dated November 10, 2010 by and between the Company and Warren Breslow in the original principal amount of $50,000. (8)
10.53 Demand Promissory Note dated December 2, 2010 by and between the Company and Warren Breslow in the original principal amount of $350,000. (9)
10.54 Demand Promissory Note dated January 20, 2011 by and between the Company and Warren Breslow in the original principal amount of $200,000.(9)
10.55 Demand Promissory Note dated February 28, 2011 by and between the Company and Warren Breslow in the original principal amount of $250,000.(9)
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)
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)
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.(10)

10.59 Demand Promissory Note dated July 5, 2011 by and between the Company and Warren Breslow in the original principal amount of $250,000.(11)

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.(11)

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.(11)

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.(11)

10.63 Demand Promissory Note dated September16, 2011 by and between the Company and Warren Breslow in the original principal amount of $250,000.(12)

10.64 Demand Promissory Note dated September 23, 2011 by and between the Company and Warren Breslow in the original principal amount of $250,000.(12)

10.65 Demand Promissory Note dated December 16, 2011 by and between the Company and Warren Breslow in the original principal amount of $250,000.(14)

10.66 Demand Promissory Note dated January 15, 2012 by and between the Company and Warren Breslow in the original principal amount of $450,000.(14)

10.67 Demand Promissory Note dated February 23, 2012 by and between the Company and Warren Breslow in the original principal amount of $250,000.(14)

10.68 Securities Purchase Agreement dated September 26, 2011, by and between Aura Systems Inc. and institutional investors(13)

10.69 Demand Promissory Note dated March 22, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(15)

10.70 Demand Promissory Note dated March 23, 2012 by and between the Company and Warren Breslow in the original principal amount of $200,000.(15)

10.71 Demand Promissory Note dated April 5, 2012 by and between the Company and Warren Breslow in the original principal amount of $200,000.(15)

10.72 Demand Promissory Note dated April 23, 2012 by and between the Company and Warren Breslow in the original principal amount of $400,000.(15)

10.73 Demand Promissory Note dated May 3, 2012 by and between the Company and Warren Breslow in the original principal amount of $400,000.(15)

10.74 Demand Promissory Note dated May 24, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(15)

10.75 Demand Promissory Note dated June 1, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(16)

10.76 Demand Promissory Note dated June 22, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(16)

10.77 Demand Promissory Note dated August 24, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(16)

10.78 Demand Promissory Note dated August 27, 2012 by and between the Company and Warren Breslow in the original principal amount of $150,000.(16)

10.79 Convertible Promissory Note dated August 10, 2012 by and between the Company and Peter Dalrymple in the original principal amount of $1,000,000.(16)

10.80 Demand Promissory Note dated September 6, 2012 by and between the Company and Warren Breslow in the original principal amount of $500,000.(17)

10.81 Demand Promissory Note dated September 27, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(17)

10.82 Demand Promissory Note dated October 19, 2012 by and between the Company and Warren Breslow in the original principal amount of $250,000.(17)

10.83 Demand Promissory Note dated October 25, 2012 by and between the Company and Warren Breslow in the original principal amount of $300,000.(17)

10.84 Demand Promissory Note dated November 2, 2012 by and between the Company and Warren Breslow in the original principal amount of $135,000.(17)

10.85 Demand Promissory Note dated November 30, 2012 by and between the Company and Warren Breslow in the original principal amount of $100,000.(17)

10.86 Convertible Promissory Note dated October 2, 2012 by and between the Company and Peter Dalrymple in the original principal amount of $500,000.(17)

10.87 Demand Promissory Note dated November 2, 2012 by and between the Company and Warren Breslow in the original principal amount of $350,000.(17)

14.1 Code of Ethics (3)

31.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
31.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.1 Certification pursuant to 18 U.S.C. Section 1350
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
(1) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC on June 15, 2009.
(2) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on January 20, 2006.
(3) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC for the year ended February 28, 2005.
(4) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC for the year ended February 29, 2008.
(5) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on October 14, 2008
(6) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC for the year ended February 28, 2009.
(7) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC for the year ended February 28, 2010
(8) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on June 1, 2011.
(9) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC for the year ended February 28, 2011
(10) Incorporated by reference from the Company's Report on Form 10-Q filed with the SEC for the quarter ended May 31, 2011
(11) Incorporated by reference from the Company's Report on Form 10-Q filed with the SEC for the quarter ended August 31, 2011
(12) Incorporated by reference from the Company's Report on Form 10-Q filed with the SEC for the quarter ended November 30, 2011
(13) Incorporated by reference from the Company's Current Report on Form 8-K filed with the SEC on September 27, 2011
(14) Incorporated by reference from the Company's Report on Form 10-K filed with the SEC for the year ended February 29, 2012
(15) Incorporated by reference from the Company's Report on Form 10-Q filed with the SEC for the quarter ended May 31, 2012
(16) Incorporated by reference from the Company's Report on Form 10-Q filed with the SEC for the quarter ended August 31, 2012
(17) Incorporated by reference from the Company's Report on Form 10-Q filed with the SEC for the quarter ended November 30, 2012

In accordance with SEC Release 33-8238, Exhibit 32.1 and 32.2 are being furnished and not filed.

Furnished herewith,XBRL (Extensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

Pursuant to the requirements of Section 13 or 15 (d) 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.

Dated: June 12, 2013

By:/s/ Melvin Gagerman
Melvin Gagerman
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Signatures	Title	Date
/s/ Melvin Gagerman Melvin Gagerman	Chief Executive Officer, Acting Chief Financial Officer Director and Chairman of the Board (Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer)	June 12, 2012
/s/ Warren Breslow Warren Breslow	Director	June 12, 2013
/s/ James Simmons James Simmons	Director	June 12, 2013
/s/Salvador Diaz-Verson, Jr. Salvador Diaz-Verson, Jr.	Director	June 12, 2013
/s/Roger L. Howsmon Roger L. Howsmon	Director	June 12, 2013
/s/Lon E. Bell Lon E. Bell	Director	June 12, 2013

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders

Aura Systems, Inc.

We have audited the accompanying balance sheets of Aura Systems, Inc. (a Delaware corporation), (the “Company”) as of February 28, 2013 and February 29, 2012, and the related statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the two year period ended February 28, 2013. The Company’s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Aura Systems, Inc. as of February 28, 2013 and February 29, 2012, and the results of its operations and its cash flows for each of the years in the two year period ended February 28, 2013 in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As more fully described in Note 11 to the financial statements, the Company has historically incurred substantial losses from operations, and the Company may not have sufficient working capital or outside financing available to meet its planned operating activities over the next twelve months. These conditions raise substantial doubt about the Company’s ability to continue as a going concern. Management’s plans regarding these matters are described in Note 11. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

/s/ Kabani & Company, Inc.
Certified Public Accountants

Los Angeles, California
June 12, 2013

AURA SYSTEMS, INC.

BALANCE SHEETS

	As of February 28, 2013	As of February 29, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 89,196	$ 6,260
Accounts receivable, net of allowance for doubtful accounts of $50,000 and $60,000 at February 28, 2013 and February 29, 2012, respectively	279,551	794,704
Inventory - current	1,000,000	1,000,000
Other current assets	235,034	486,824
Total current assets	1,603,780	2,287,788
Deposits	61,944	48,944
Property, plant, and equipment, net	40,470	198,138
Inventory, non-current, net of allowance for obsolete inventory of $1,341,650 and $1,563,066 at February 28, 2013 and February 29, 2012, respectively	1,384,142	1,604,000
Total assets	$ 3,090,336	$ 4,138,870
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current liabilities:		
Bank overdraft	$ -	$ 16,068
Accounts payable	1,202,382	770,507
Accrued expenses	1,601,740	1,019,959
Customer advances	12,598	57,211
Notes payable	3,004,990	150,000
Convertible notes payable, net of discount	503,509	1,064,644
Notes payable and accrued interest- related party	17,265,466	12,562,743
Total current liabilities	23,590,684	15,641,132
Convertible note payable, net of discount	1,097,938	96,786
Total liabilities	24,688,623	15,737,918
Commitments and contingencies		
Stockholders' deficit:		
Common stock, $0.0001 par value; 150,000,000 shares authorized at February 28, 2013 and February 29, 2012; 76,604,573 and 71,942,669 issued and outstanding at February 28, 2013 and February 29, 2012	7,660	7,194
Additional paid-in capital	398,949,767	393,801,622
Accumulated deficit	(420,555,713)	(405,407,864)
Total stockholders' deficit	(21,598,286)	(11,599,048)
Total liabilities and stockholders' deficit	$ 3,090,336	$ 4,138,870

The accompanying notes are an integral part of these financial statements.

AURA SYSTEMS, INC.

STATEMENTS OF OPERATIONS

	For the Year ended February 28, 2013	For the Year ended February 29, 2012
Net revenues	$ 2,717,446	$3,335,985
Cost of goods sold	1,527,700	1,772,155
Gross profit	1,189,746	1,563,830
Operating expenses:		
Engineering, research and development	1,313,816	1,328,133
Selling, general, and administrative	13,377,161	13,059,291
Total operating expenses	14,690,977	14,387,424
Loss from operations	(13,501,231)	(12,823,594)
Other income (expense):		
Interest expense, net	(3,874,328)	(2,012,538)
Gain on settlement of debt, net	113,023	656,838
Other income, net	2,114,689	25,590
Total other expense	(1,646,616)	(1,330,110)
Net Loss	(15,147,848)	(14,153,704)
Basic and diluted loss per share	$(0.21)	$(0.21)
*Weighted-average shares outstanding	73,009,266	66,912,617

* Basic and diluted weighted average number of shares outstanding are equivalent because the effect of dilutive securities is anti-dilutive.

The accompanying notes are an integral part of these financial statements

AURA SYSTEMS, INC.

STATEMENTS OF STOCKHOLDERS' DEFICIT

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Accumulated Deficit	Total Stockholders' Deficit
Balance, February 28, 2011	60,720,956	$6,072	$379,819,510	$(391,254,160)	$(11,428,578)
Common stock issued in private placements, net	2,460,849	246	1,453,274	-	1,453,520
Shares issued for note conversions	2,227,612	222	1,515,738	-	1,515,960
Shares issued for settlement of accounts payable	1,006,054	101	656,898	-	656,999
Shares issued for services	1,625,000	163	1,128,837	-	1,129,000
Shares issued for in lieu of salary	3,042,199	304	2,087,144	-	2,087,448
Shares issued as placement fees	859,999	86	(86)	-	-
Allocation of proceeds from convertible notes payable issued with warrants	-	-	3,366,248	-	3,366,248
Employee option and warrant expense	-	-	3,774,059	-	3,774,059
Net Loss	-	-	-	(14,153,704)	(14,153,704)
Balance, February 29, 2012	71,942,669	$7,194	$393,801,622	$(405,407,864),	$(11,599,048)
Common stock issued in private placements, net	3,866,867	387	1,251,713	-	1,252,100
Shares issued for note conversion	341,748	34	157,360	-	157,394
Shares issued for settlement of accounts payable	37,500	4	19,309	-	19,313
Shares issued for services	415,789	41	315,959	-	316,000
Employee option and warrant expense	-	-	2,943,600	-	2,943,600
Discount on convertible notes payable	-	-	460,205	-	460,205
Net Loss	-	-	-	(15,147,848)	(15,147,848)
Balance, February 28, 2013	76,604,573	$7,660	$398,949,767	$(420,555,712)	$(21,598,286)

The accompanying notes are an integral part of these financial statements

AURA SYSTEMS, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended February 28,

	2013	2012
Cash flows from operating activities:		
Net loss	$(15,147,848)	$(14,153,704)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	157,668	182,703
Provision for bad debt	(10,000)	7,547
Provision for inventory obsolescence	(221,416)	(543,325)
Stock option and warrant employee compensation expense	2,038,520	3,774,059
Warrant expense	905,080	55,901
Amortization of debt discount	2,418,971	957,037
Beneficial conversion feature on convertible debt	-	70,641
Gain on debt settlement	-	(656,838)
Gain on conversion	(113,023)	-
Shares issued for services	316,000	754,000
(Increase) decrease in:		
Accounts receivable	525,153	(505,954)
Inventory	441,274	1,213,338
Other current assets	238,790	290,075
Increase (decrease) in:		
Bank overdraft	-	16,068
Accounts payable and accrued expenses	2,335,351	1,269,829
Customer advances	(44,613)	37,048
Net cash used in operating activities	(6,160,093)	(7,231,575)
Cash flows from investing activities:		
Purchase of property, plant, and equipment	-	-

(Continued)

The accompanying notes are an integral part of these financial statements

AURA SYSTEMS, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

For the Years Ended February 28,

	2013	2012
Cash flows from financing activities:		
Proceeds from notes payable	3,725,719	457,000
Payments on notes payable	(611,000)	(202,500)
Proceeds from notes payable - related party	4,460,000	1,925,000
Payments on notes payable – related party	(1,065,040)	-
Proceeds from convertible notes payable	1,850,000	-
Payments on convertible notes payable	(3,368,750)	3,500,000
Net proceeds from issuance of common stock	1,252,100	1,453,520
Net cash provided by financing activities	6,243,029	7,133,020
Net increase (decrease) in cash and cash equivalents	82,936	(98,555)
Cash and cash equivalents, beginning of year	6,260	104,815
Cash and cash equivalents, end of year	$ 89,196	$ 6,260
Supplemental disclosures of cash flow information:		
Interest paid	$ 71,080	$ 43,456
Income taxes paid	$ -	$ -

Supplemental schedule of non-cash financing and investing activities:

During the year ended February 28, 2013, $259,729 of notes payable and accrued interest was converted into 341,748 shares of common stock, $30,000 of accounts payable was converted into 37,500 shares of common stock and 415,789 shares of common stock were issued for services valued at $316,000.

During the year ended February 29, 2012, $1,515,960 of notes payable and accrued interest was converted into 2,227,612 shares of common stock, $599,492 of accounts payable was converted into 1,006,054 shares of common stock, 3,042,199 shares of common stock were issued in lieu of $2,259,865 of salary to employees, 1,625,000 shares of common stock were issued for services valued at $1,129,000, and 859,999 shares of common stock were issued as finders' fees. Shares issued in advance of services provided were valued at $299,400.

The accompanying notes are an integral part of these financial statements

NOTE 1 - ORGANIZATION AND OPERATIONS

Aura Systems, Inc., ("Aura", "We" or the "Company") a Delaware corporation, was founded to engage in the development, commercialization, and sales of products, systems, and components, using its patented and proprietary electromagnetic and electro-optical technology. Aura develops and sells AuraGen® mobile induction power systems to the industrial, commercial, and defense mobile power generation markets. In addition, we hold patents for other technologies that have not been commercially exploited.

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.

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 historical reasons, we are holding inventories in excess of what we expect to sell in the next fiscal year. As of February 28, 2013 and February 29, 2012, $1,384,142, and $1,604,000 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.

Patents and Trademarks

We capitalize the cost of obtaining or acquiring patents and trademarks. Amortization of patent and trademark costs is provided for by the straight-line method over the estimated useful lives of the assets.

Valuation of Long-Lived Assets

The Company accounts for the impairment of long-lived assets, such as fixed assets, patents and trademarks, under the provisions of Financial Accounting Standards Board Accounting Standards Codification ("FASB ASC") 360, "Property, Plant, and Equipment", which establishes the accounting for impairment of long-lived tangible and intangible assets other than goodwill and for the disposal of a business. Pursuant to FASB ASC 360, we review for impairment when facts or circumstances indicate that the carrying value of long-lived assets to be held and used may not be recoverable. If such facts or circumstances are determined to exist, an estimate of the undiscounted future cash flows produced by the long-lived asset, or the appropriate grouping of assets, is compared to the carrying value to determine whether impairment exists. If an asset is determined to be impaired, the loss is measured based on various valuation techniques, including a discounted value of estimated future cash flows. We report impairment costs as a charge to operations at the time it is recognized. During the years ended February 28, 2013 and February 29, 2012, we determined that there was no impairment of long-lived assets.

Stock-Based Compensation

The Company accounts for stock-based compensation under the provisions of FASB ASC 718, "Compensation – Stock Compensation", which requires the measurement of all share-based payments to employees, including grants of employee stock options, using a fair value based method and the recording of such expense in the consolidated statements of operations.

The Company accounts for stock option and warrant grants issued and vesting to non-employees in accordance with FASB ASC 505-50, "Equity Based Payments to Non-Employees", whereas the fair value of the equity based compensation is based upon the measurement date as determined at the earlier of either (a) the date at which a performance commitment is reached or (b) at the date at which the necessary performance to earn the equity instruments is complete.

For the past several years and in accordance with established public company accounting practice, the Company has consistently utilized the Black-Scholes option-pricing model to calculate the fair value of stock options and warrants issued as compensation, primarily to management, employees, and directors. The Black-Scholes option-pricing model is a widely-accepted method of valuation that public companies typically utilize to calculate the fair value of options and warrants that they issue in such circumstances.

Fair Value of Financial Instruments

We measure our financial assets and liabilities in accordance with the requirements of FASB ASC 825 "Financial Instruments". The carrying values of accounts receivable, accounts payable, current notes payable, accrued expenses and other liabilities approximate fair value due to the short-term maturities of these instruments. The carrying amounts of long-term convertible notes payable approximate their respective fair values because of their current interest rates payable and other features of such debt in relation to current market conditions.

Shipping and handling expenses

We record all shipping and handling billings to a customer as revenue earned for the goods provided in accordance with FASB ASC 605-45-45-19, "Shipping and Handling Fees and Costs". We include shipping and handling expenses in selling, general and administrative expense. Shipping and handling expenses amounted to $126,346 and $101,958 for the years ended February 28, 2013 and February 29, 2012, respectively.

Advertising Expense

Advertising costs are charged to expense as incurred and were immaterial for the years ended February 28, 2013 and February 29, 2012.

Research and Development

Research and development costs are expensed as incurred. These costs include the expenses incurred in the development of products such as the 200amp ECU, the TanGen (dual generator), the eight inch generator, the 30 kW unit and the refrigeration system. Additionally, we are exploring the possibility of developing a 125kW system.

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 February 28, 2013 and February 29, 2012.

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.

Earnings (Loss) per Share

We utilize FASB ASC 260, "Earnings per Share." Basic earnings (loss) per share is computed by dividing earnings (loss) available to common stockholders by the weighted-average number of common shares outstanding. Diluted earnings (loss) per share is computed similar to basic earnings (loss) per share except that the denominator is increased to include additional common shares available upon exercise of stock options and warrants using the treasury stock method, except for periods of operating loss for which no common share equivalents are included because their effect would be anti-dilutive.

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.

Major Customers

During the year ended February 28, 2013, we conducted business with three major customers whose sales comprised 23.0%, 19.6%, and 15.4% of net sales, respectively. As of February 28, 2013, these customers accounted for 42.4% of net accounts receivable. During the year ended February 29, 2012, we conducted business with four major customers whose sales comprised 23.9%, 20.6%, 18.5% and 11.3% of net sales, respectively. As of February 29, 2012, these customers accounted for 75.8% of net accounts receivable.

Recently Issued Accounting Pronouncements

In February 2013, the FASB issued ASU No. 2013-02, which amends the authoritative accounting guidance under ASC Topic 220 *Comprehensive Income.* The amendments do not change the current requirements for reporting net income or other comprehensive income in financial statements. However, the amendments require an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income but only if the amount reclassified is required under GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2013. Early adoption is permitted. Adoption of this update is not expected to have a material effect on the Company's consolidated results of operations or financial condition.

Reclassifications

Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 presentation.

NOTE 3 – INVENTORIES

Inventories at February 28, 2013 and February 29, 2012 consisted of the following:

	2013	2012
Raw materials	$1,888,831	$1,812,523
Finished goods	1,836,960	2,354,543
	3,725,791	4,167,066
Reserve for potential product obsolescence	(1,253,300)	(1,460,683)
Discount on long term inventory	(88,350)	(102,383)
	2,384,141	2,604,000
Non-current portion	(1,384,141)	(1,604,000)
Current portion	$1,000,000	$1,000,000

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 February 28, 2013 and 2012, which are not expected to be realized within a 12-month period have been reclassified as long term.

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 $1,253,300 and $1,460,683 at February 28, 2013 and February 29, 2012, respectively. Management has also recorded a discount on long term inventory of $88,350 and $102,383 at February 28, 2013 and February 29, 2012, respectively.

NOTE 4 – OTHER CURRENT ASSETS

Other current assets of $235,034 and $486,824 are primarily comprised of vendor advances of $181,910 and $130,388 as of February 28, 2013 and February 29, 2012, respectively.

NOTE 5 – PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment at February 28, 2013 and February 29, 2012 consists of the following:

	2013	2012
Machinery and equipment	$964,111	$964,111
Furniture and fixtures	163,302	163,302
Leasehold improvements	485,080	485,080
	1,612,493	1,612,493
Less accumulated depreciation and amortization	(1,572,023)	(1,414,354)
Property, plant and equipment, net	$40,470	$198,139

Depreciation and amortization expense was $157,668 and $182,703 for the years ended February 28, 2013 and February 29, 2012, respectively.

NOTE 6 – NOTES PAYABLE

Notes payable consisted of the following:

	February 28, 2013		February 29, 2012	
Demand notes payable, at 10% and 12%	$	3,004,990	$	150,000
Convertible Promissory Note dated August 10, 2012, due August 10, 2017, convertible into shares of our common stock at a price of $0.76 per share. The note carries an interest rate of 7% with interest only payments due on the 10th of each month with the principal payment due on the maturity date.		724,056		-
Convertible Promissory Note dated October 2, 2012, due October 2, 2017, convertible into shares of our common stock at a price of $0.76 per share. The note carries an interest rate of 7% with interest only payments due on the 2nd of each month with the principal payment due on the maturity date.		373,882		-
Convertible Promissory Note dated November 2, 2012, due January 4, 2013, convertible into shares of our common stock at a price of $0.76 per share. The note carries an interest rate of 7% with interest only payments due on the 2nd of each month with the principal payment due on the maturity date.		350,000		-
Senior secured convertible note dated September 23, 2011, due March 23, 2013, with 12 monthly payments commencing April 23, 2012 of $306,250 per month. The notes have a stated interest rate of 0%, with prepaid interest of $175,000. Balance net of Beneficial Conversion Feature		153,508		1,161,430
		4,606,436		1,311,430
Less: Current portion	$	3,508,498	$	1,214,644
Long-term portion	$	1,097,938	$	96,786

CONVERTIBLE DEBT

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

Future maturities of notes payable at February 28, 2013 are as follows:

Year Ending February 28,	
2014	$ 353,508
2015	-
2016	-
2017	1,097,938
Total	$1,451,446

CONVERTIBLE PROMISSORY NOTES

At February 28, 2013 and February 29, 2012, the three other convertible promissory note payable amounted to $1,447,938 and Nil, respectively, net of discounts of $402,063 and Nil, respectively. The convertible notes (the "Notes") bear interest at 7% per annum, and are convertible into common stock of the Company at $0.76 per share (as well as variable conversion rates as described below). The notes are due on August 10, 2017, October 2, 2017, and January 4, 2013 and are unsecured.

7% Convertible Promissory Notes:

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

On October 2, 2012 the Company entered into an agreement with the individual (the "holder") for the sale of $500,000 of unsecured Convertible Promissory Note (the "Note") to the holder. The Convertible Promissory Note balance together with all accrued interest thereon shall be due and payable on October 2, 2017 and the annual interest rate is 7% per annum and is due to be repaid 5 years from the closing date. The Note holder will receive interest on the unpaid principal amount payable monthly in arrears on the second day of each calendar month commencing November 2, 2012. Interest shall be computed on the actual number of days elapsed over a 360-day year. The Holder has the right from and after the Date of Issuance, and until any time until the Convertible promissory note is fully paid, to convert any outstanding and unpaid principal portion of the Convertible promissory note into shares of Common Stock.

On November 2, 2012 the Company entered into an agreement with the individual (the "holder") for the sale of $350,000 of unsecured Convertible Promissory Note (the "Note") to the holder. The Convertible Promissory Note balance together with all accrued interest thereon shall be due and payable on January 4, 2013 and the annual interest rate is 7% per annum and is due to be repaid 2 months from the closing date. The Note holder will receive interest on the unpaid principal amount payable monthly in arrears on the second day of each calendar month commencing December 2, 2012. Interest shall be computed on the actual number of days elapsed over a 360-day year. The Holder has the right from and after the Date of Issuance, and until any time until the Convertible promissory note is fully paid, to convert any outstanding and unpaid principal portion of the Convertible promissory note into shares of Common Stock.

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

As of February 28, 2013 the fair value of the conversion features subject to derivative accounting was $448,306. The value of the conversion feature was determined using the Black-Scholes method based on the following assumptions: (1) risk free interest rate of 0.59%; (2) dividend yield of 0%; (3) volatility factor of the expected market price of our common stock of 71.29%; and (4) expected life of the conversion features of 5 years.

NOTE 7 – NOTES PAYABLE – RELATED PARTY

At February 28, 2013 the balance consists of $13,819,960 of unsecured notes payable plus accrued interest of $3,445,506 to a member of our Board of Directors, payable on demand, bearing interest at a rate of 10% per annum.

At February 29, 2012 the balance consists of $10,425,000 of unsecured notes payable plus accrued interest of $2,137,743 to a member of our Board of Directors, payable on demand, bearing interest at a rate of 10% per annum. During the years ended February 28, 2013 and February 29, 2012, interest amounting to $1,307,763 and $944,632 respectively, was incurred on these notes and is included in accrued interest.

NOTE 8 - ACCRUED EXPENSES

Accrued expenses at February 28, 2013 and February 29, 2012 consisted of the following:

	2013	2012
Accrued payroll and related expenses	$1,564,496	$ 993,652
Accrued interest	30,867	82
Other	6,377	26,225
Total	$1,601,740	$1,019,959

Accrued payroll and related expenses consists primarily of salaries accrued but not paid to certain employees due to our lack of financial resources. At February 28, 2013 and February 29, 2012, these amounts total $927,984 and $524,989, respectively. Also included in this amount is accrued vacation expense of $411,667 and $306,562 at February 28, 2013 and February 29, 2012 respectively.

NOTE 9 - COMMITMENTS & CONTINGENCIES

Leases

On May 1, 2008, we entered into a lease for a facility of approximately 25,500 square feet. The lease is for a term of five years, has an option to extend for five years, and carries a base rent of $30,120. We are currently on a month to month lease in that facility. In December 2009, we entered into a lease for a facility in Georgia of approximately 8,000 square feet. The lease is for a term of three years, has an option to extend for three years, and carries a base rent of $3,183 per month. In accordance with the terms of certain of the leases, the Company is responsible for common area charges. Rent expense charged to operations amounted to $544,110 and $690,491 for the years ended February 28, 2013 and February 29, 2012, respectively.

Contingencies

From time to time, we may be subject to various claims and legal actions arising in the ordinary course of business.

NOTE 10 - STOCKHOLDERS' DEFICIT

Common Stock

At February 28, 2013 and February 29, 2012, we had 150,000,000 shares of $0.0001 par value common stock authorized for issuance, respectively. During the years ended February 28, 2013 and February 29, 2012, we issued 4,661,904 and 11,221,713 shares of common stock, respectively.

In the year ended February 28, 2013, we issued 3,866,867 shares of common stock, with 2,033,333 five year warrants attached with an exercise price of $1.00, for cash proceeds of $1,252,100 and the availability of up to $500,000 in additional loans on favorable terms; 341,748 shares were issued upon the conversion of $259,729 of notes payable and accrued interest with 206,941 five year warrants attached with an exercise price of $1.00 with a gain on settlement of debt of $102,336; 37,500 shares were issued in settlement of $30,000 of accounts payable with 25,000 five year warrants attached with an exercise price of $1.00 with a gain on settlement of debt of $10,688; and 415,789 shares were issued for marketing services and investor relation services valued at $316,000.

In the year ended February 29, 2012, we issued 2,460,849 shares of common stock, with 1,288,333 five year warrants attached with exercise prices ranging from $0.50-$0.75, for cash proceeds of $1,453,520; 2,227,612 shares were issued upon the conversion of $1,515,960 of notes payable and accrued interest; 1,006,054 shares were issued in settlement of $656,999 of accounts payable; 2,484,999 shares were issued for marketing services, investor relation services and finders fees valued at $1,129,000; and 3,042,199 shares were issued to employees in lieu of $2,259,865 in unpaid salary.

Employee Stock Options

In September, 2006, our Board of Directors adopted the 2006 Employee Stock Option Plan, subject to shareholder approval, which was obtained at a special shareholders meeting. Under the Plan, the Company may grant options for up to the greater of Three Million (3,000,000) or 10% of the number of shares of the Common Stock of Aura from time to time outstanding. The exercise price of each option shall be at least equal to the fair market value of such shares on the date of grant. The term of the options may not be greater than ten years, and they typically vest over a three year period.

During the year ended February 28, 2013, the Company granted 2,590,500 options to certain employees. These options immediately, have an exercise price of $.75, and have a seven year life. The grant date fair value of these options amounted to $780,973 which was calculated using the Black-Scholes option pricing model with the following assumptions: risk free rate of return of 1.26%, volatility of 74.98%, a dividend yield of 0%, and an expected life of 7 years.

The Company incurred stock options related expenses of $911,730 and $211,481, during the years ended February 28, 2013 and February 29, 2012, respectively.

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	5,287,500
Granted	$0.75-$1.00		1,319,000
Cancelled	$0.75		(338,000)
Outstanding, February 29, 2012	$0.75-$1.00	$0.00	6,268,500
Granted	$0.75		2,590,500
Cancelled	$0.75		(311,000)
Outstanding, February 28, 2013	$0.75-$1.00	$0.00	8,548,000

The exercise prices for the options outstanding at February 28, 2013, 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	8,548,000	6.9 years	$ 0.76	7.0 years	8,048,000	$ 0.76

The weighted average fair values of the options on the date of grant for the year ended February 28, 2013 and February 29, 2012 were $0.31 per share and $0.38 per share, respectively.

A summary of the status of the Company's non-vested shares as of February 28, 2013, and changes during the year ended February 28, 2013, is presented below:

Non-vested Shares	**Shares**	**Weighted-Average Grant-Date Fair Value**
Non-vested at February 29, 2012	1,229,056	$ 0.38
Granted	2,590,500	$ 0.31
Vested	(3,319,556)	$ 0.38
Non-vested at February 28, 2013	500,000	$ 0.38

As of February 28, 2013, there was $101,115 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted-average period of 2.50 years.

Warrants

Activity in issued and outstanding warrants is as follows:

	Number of Shares	Exercise Prices
Outstanding, February 29, 2012	31,009,738	$0.75-$4.00
Granted	8,756,942	$0.75-$1.00
Expired	(983,390)	$3.00-$4.00
Outstanding, February 28, 2013	38,783,290	$0.75-$3.00

The exercise prices for the warrants outstanding at February 28, 2013, 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
$0.75-$1.00	8,756,942	8,756,942	77 months	$0.81	$0.81	$0.00
$0.75-$1.00	6,225,000	6,225,000	43 months	$0.99	$0.99	$0.00
$1.00	16,722,787	16,722,787	42 months	$1.00	$1.00	$0.00
$1.50	155,000	155,000	37 months	$1.50	$1.50	$0.00
$0.75-1.50	1,109,198	1,109,198	34 months	$1.17	$1.17	$0.00
$1.50	156,000	156,000	30 months	$1.50	$1.50	$0.00
$1.50	704,000	704,000	29 months	$1.50	$1.50	$0.00
$1.50	350,642	350,642	26 months	$1.50	$1.50	$0.00
$0.75-$2.00	58,000	58,000	22 months	$1.78	$1.78	$0.00
$2.00	725,721	725,721	19 months	$2.00	$2.00	$0.00
$0.75-2.00	3,650,000	3,650,000	16 months	$1.03	$1.03	$0.00
$3.00	170,000	170,000	9 months	$3.00	$3.00	$0.00
	38,783,290	38,783,290				

NOTE 11 – GOING CONCERN

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. During the years ended February 28, 2013 and February 29, 2012, the Company incurred losses of $15,147,848 and $14,153,704, respectively and had negative cash flows from operating activities of $6,160,093 and $7,231,575, respectively.

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

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

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

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

NOTE 12- INCOME TAXES

The Company did not record any income tax expense due to the net loss during the years ended February 28, 2013 and February 29, 2012. The actual tax benefit differs from the expected tax benefit computed by applying the combined United States corporate tax rate and the State of California tax rate of 40% to loss before income taxes as follows for the years ended February 28, 2013 and February 29, 2012:

		2013		2012
Current:	$		$	
Federal		-		-
State		800		800
Total		800		800
Deferred				
Federal		-		-
State		-		-
Total		-		-
Total Income Tax Provision	$	800	$	800

The provision for income tax is included with other expense in the accompanying consolidated financial statements.

	2013	2012
Expected tax benefit	34.0%	34.0%
State income taxes, net of federal benefit	6.0	6.0
Changes in valuation allowance	(40.0)	(40.0)
Total	-%	- %

The following table summarizes the significant components of our deferred tax asset at February 28, 2013 and February 29, 2012:

	2013	2012
Deferred tax asset		
Primarily relating to net operating loss carry-forwards, but also reserves for inventory and accounts receivable, stock-based compensation and other	$119,000,000	$113,000,000
Valuation allowance	(119,000,000)	(113,000,000)
Net deferred tax asset	$ -	$ -

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

At February 28, 2013, we had operating loss carry-forwards of approximately $349,000,000 for federal purposes, which expire through 2026, and $68,000,000 for state purposes, which expire through 2018.

We follow FASB ASC 740 related to uncertain tax positions. Under FASB ASC 740, the impact of an uncertain tax position on the income tax return must be 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 February 28, 2013 and February 29, 2012, we have 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 February 28, 2013 and February 29, 2012, we have no accrued interest and penalties related to uncertain tax positions.

We are subject to taxation in the U.S. and California. Our tax years for 2009 and forward are subject to examination by our tax authorities. We are not currently under examination by any tax authority.

NOTE 13 - EMPLOYEE BENEFIT PLANS

We sponsor two employee benefit plans: The Employee Stock Ownership Plan (the "ESOP") and a 401(k) plan.

The ESOP is a qualified discretionary employee stock ownership plan that covers substantially all employees. We did not make any contributions to the ESOP during the years ended February 28, 2013 and February 29, 2012, respectively.

We sponsor a voluntary, defined contribution 401(k) plan. The plan provides for salary reduction contributions by employees and matching contributions by us of 100% of the first 4% of the employees' pre-tax contributions. The matching contributions included in expense were $77,960 and $65,934 for the years ended February 28, 2013 and February 29, 2012, respectively.

NOTE 14 - 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 years ended February 28, 2013 and February 29, 2012:

	2013	2012
United States	$1,806,141	$1,906,453
Canada	117,086	488,688
Europe	109,283	93,855
Other	30,109	-
Asia	654,827	846,989
Total	$2,717,446	$3,335,985