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U.S. 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 JULY 31, 2011**

☐ **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 000-26399

eOn Communications Corporation

(Exact name of registrant as specified in its charter)

DELAWARE	**62-1482176**
(State of incorporation)	**(I.R.S. Employer Identification No.)**

1703 Sawyer Road, Corinth, MS 38829
(Address of principal executive offices)

(800) 955-5321
(Telephone number)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, $0.005 par value per share
(Title of each class)

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

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act ☐

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 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 (§229.405 of this chapter) 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 filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ☐	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	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 ☒

The aggregate market value of the shares of common stock held by non-affiliates of the registrant was approximately $3,887,031 based upon the closing sale price as reported by the NASDAQ Stock Market on the last business day of the registrant's most recently completed second fiscal quarter (January 31, 2011).

2,870,405 shares of Common Stock, par value $0.005, were outstanding as of September 30, 2011.

DOCUMENTS INCORPORATED BY REFERENCE

Certain portions of the registrant's Proxy Statement for the 2011 Annual Meeting of Shareholders are incorporated by reference in Part III.

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* - Information is not required because the registrant is a smaller reporting company

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PART 1

FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are those that express management's views of future events, developments, and trends. In some cases, these statements may be identified by terminology such as "may," "will," "should," "expects," "plans," "intends," "anticipates," "believes," "estimates," "predicts," "potential," or "continue" or the negative of such terms and other comparable expressions. Forward-looking statements include statements regarding our anticipated or projected operating performance, financial results, liquidity, and capital resources. These statements are based on management's beliefs, assumptions, and expectations, which in turn are based on the information currently available to management. Information contained in these forward-looking statements is inherently uncertain, and our actual operating performance, financial results, liquidity, and capital resources may differ materially due to a number of factors, most of which are beyond our ability to predict or control. Factors that may cause or contribute to such differences include, but are not limited to, eOn's ability to compete successfully in its industry and to continue to develop products for new and rapidly changing markets. We also direct your attention to the risk factors affecting our business that are discussed elsewhere in Item 1A. eOn disclaims any obligation to update any of the forward-looking statements contained in this report to reflect any future events or developments. The following discussions should be read in conjunction with our consolidated financial statements and the notes included thereto in Item 8.

ITEM 1. DESCRIPTION OF BUSINESS.

BACKGROUND

eOn Communications Corporation™ ("eOn" or the "Company") is a provider of communications solutions incorporated in Delaware in July 1991. Backed with over 20 years of telecommunications engineering expertise, the Company's solutions enable its customers to use technologies in order to communicate more effectively. eOn's offerings are built on open architectures that enable adoption of technologies, such as Voice over Internet Protocol (VoIP) and concepts, such as Service Oriented Architectures (SOA). Whether businesses are looking to leverage the advantages of enterprise IP telephony or contact center technologies, eOn delivers products that enable businesses to perform.

On April 1, 2009, the Company acquired Cortelco Systems Holding Corp. ("Cortelco"). David Lee, Chairman of eOn, was the Chairman and the controlling shareholder of Cortelco. Cortelco, Inc. is a wholly-owned subsidiary of Cortelco Systems Holding Corp. Cortelco provides commercial grade telephone products primarily for use in businesses, government agencies, colleges and universities, telephone companies, and utilities. Cortelco sells primarily through large national distributors with whom it has long term relationships.

On June 9, 2010, the Company executed a Stock Purchase Agreement to purchase 501,382 shares of common stock of Cortelco Systems Puerto Rico, Inc. ("CSPR") from David S. Lee, eOn's Chairman. The acquisition of CSPR stock was completed on June 9, 2010. The consideration for the CSPR shares consists of (i) 90,959 Company shares of stock, issued to Mr. Lee effective June 9, 2010, (ii) a cash payment of $185,511.34, payable in three annual installments, with the initial installment due on June 9, 2011, (iii) and the right to share in sales proceeds received by the Company if the Company sells the CSPR shares on or before June 9, 2013 for a price that is more than the Company paid for the shares. The number of eOn shares issued to Mr. Lee was calculated based on the average closing price of eOn Shares for thirty (30) trading days ending on June 8, 2010. The Company has the right to require Mr. Lee to repurchase the CSPR shares at the price paid by the Company on or after June 9, 2013, but before June 9, 2014. The purchase, combined with shares already owned by the Company, establishes eOn Communications as the majority shareholder of Cortelco Systems Puerto Rico.

The Company's principal executive offices are located at 1703 Sawyer Road, Corinth, Mississippi 38834. The telephone number at that address is (800) 955-5321. The Company also has offices located in Cupertino, CA and Caguas, Puerto Rico.

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BUSINESS OVERVIEW

eOn focuses its resources on developing and marketing products that help businesses communicate with their customers. Communications technology is a critical factor for businesses in their effort to gain a competitive edge. To enable businesses to succeed in this area, eOn offers the Millennium Converged Communications Platform and the eQueue Multimedia Contact Center Solution.

Cortelco is committed to fulfilling the communication needs of business and organizations. Cortelco's mission is to provide our customers with telephone products together with service and support. Cortelco has formed partnerships with distributors and provides the support needed to supply customers with sales, marketing, customer service, technical support and training.

Cortelco Systems Puerto Rico's operations include the sale and service of integrated communications systems, data equipment, security products, and telephony billing services.

Millennium Converged Communications Platform

The Millennium is a modular, multi-shelf system combining hardware design with the flexibility of configurable software supporting both basic and complex telephony operations. It is a flexible system that can be configured to operate as a PBX, key system, hybrid, tandem switch channel bank or as a conduit for data applications. The Millennium is digital end-to-end and VoIP compatible. Its system design is based on distributed processing and DSP technology. This product offers businesses the following features:

- **Voice over Internet Protocol (VoIP)**

  The Millennium System offers support of VoIP, digital and analog technologies—enabling businesses to deploy traditional, IP telephony or a combination of both when and where it's appropriate for the organization. Whether the need is to connect several phones in an office, hundreds of phones in a campus environment or clusters of remote workers, Millennium VoIP enables the creation of a virtual enterprise.

- **Flexible Desktop Solutions**

  The Millennium offers a selection of telephones and desktop appliances to meet the communications needs of employees. Multiple models of VoIP and traditional phones as well as button expansion modules are offered that provide access to the Millennium's call processing features.

- **Advanced Call Routing**

  The Millennium offers an array of call routing features necessary to route calls to the appropriate resource throughout an enterprise. Call routing plans can be simple or complex depending on business requirements. The Millennium supports up to 64 call routing plans with each plan allowing for 60 different sequences of instructions for customized call handling needs.

- **Flexible Networking Options**

  The Millennium offers solutions for a variety of networking applications. From campus environments to distributed call centers, the Millennium provides networking capabilities and data connectivity in industries where a communications hub is required to provide a central point of entry into a system or network.

- **Multimedia Messaging**

  With the Millennium's unified messaging option, employees and customers can use the communications medium that they prefer or that is convenient—any combination of voice, fax, or email. The unified messaging option module provides users the ability to access and manage all of their voice, fax and email messages together from a single, highly intuitive interface.

- **Automatic Call Distribution**

  Automatic Call Distribution (ACD) is an effective tool both for handling a high volume of calls and managing call center operations. It is also a tool that small to medium sized call centers need, but they often do not want the burdens that can accompany full-featured ACD equipment. The Millennium offers a flexible solution by providing call routing capabilities that easily distribute calls to equalize the workload across employees and provide callers with prompt service.

Millennium Business Benefits

Business communications powered by the Millennium Converged Communications Platform give employees productivity enhancing features that enable collaboration and productivity. All forms of networking technology are supported, including VoIP, digital as well as traditional. This gives enterprises the option to deploy advanced technologies and, at the same time, preserve investment in legacy applications and investments. Lastly, since the Millennium system offers a wide variety of communications solutions, enterprises can invest in one comprehensive platform that meets the needs of the entire enterprise. This lowers the total cost of ownership and simplifies ongoing administrative and expansion needs.

eQueue Multi-Media Contact Center Solution

The eQueue® Multi-Media Contact Center System remains a proven solution in both commercial and government applications and eOn continues to actively sell and support it. The system is designed to replace proprietary communication devices such as Private Branch Exchanges (PBX), Automatic Call Distributors (ACD), Interactive Voice Response (IVR) systems, recording systems, workforce management systems, voice mail systems, and Computer Telephony Integration (CTI) middleware systems with an all-in-one blended communications system. Because the eQueue platform is built on an "open" unified architecture, organizations can eliminate the need for complex communications systems integration while reducing start-up and maintenance costs, simplifying administration, and increasing ease of customization. The eQueue enables enterprises to communicate more effectively with customers, lowers operational costs and increases agent productivity.

The eOn eQueue solution offers many advantages in the complex and competitive customer interaction management marketplace.

- **Universal Queue**

  The eQueue's universal queue approach enables contact centers to interact with their customers regardless of the media. The capability not only provides customers with consistent interaction management across all media, but also includes extensive skills-based routing for all contacts that can match the most appropriate resource to a customer's need.

- **Comprehensive**

  The eQueue offers comprehensive applications including ACD with skills based routing, PBX with VoIP capabilities, email and web chat applications with an integrated knowledge base, integrated voice response, voice mail with unified messaging, quality assurance recording, workforce management and a complete range of desktop devices and applications.

- **Open**

  The eQueue is an open standards-based solution based on the Linux™ operating system. Using an open solution not only provides for ease of integration, but also provides the contact center with support for evolving future needs.

- **Modular**

  The eQueue provides the flexibility to add, combine and customize important features and functions to meet the individual needs of a contact center. The eQueue is compatible with most third party systems, allowing companies the ability to integrate other applications.

- **Scalable**

  For contact centers with as few as 10 agents to those with over 1000 agents, the eQueue provides the functionality required.

- **Proven**

  With a quarter century of contact center expertise, eOn has served customers in a variety of markets including Multi-Media Contact Centers, Traditional Call Centers, General Business Applications, Service Providers and Emergency 911 Centers. The eQueue is a fully redundant solution designed to perform in a mission-critical environment.

Benefits of an eQueue Solution

The benefits of using an eQueue include improved customer satisfaction, retention and loyalty, increased agent productivity and lower total cost of ownership.

- **Improved Customer Satisfaction, Retention & Loyalty**

  Outstanding customer service is the primary goal of most companies. Attaining this goal is often the direct result of how effectively voice calls, emails and web-based communications are routed and managed within the contact center. The eQueue provides a universal queue together with a common management interface for all types of customer contacts. This, combined with skills-based routing capabilities, ensures that contact centers can match the best possible resource to meet a customer's need consistently across all media types. Additionally, the eQueue's open platform provides ease of integration with customer relationship management ("CRM") and other enterprise applications, allowing a high level of business-driven management of all customer interactions. This enables improved customer satisfaction and retention with consistent service delivery across all contact channels.

- **Increased Productivity**

  Multi–media contact blending is one way to significantly improve productivity. In traditional call centers, individual agents can only handle one contact type, such as voice calls. Therefore, different pools of agents must be created to manage different forms of media. To cover peak demand times, each unique agent pool must be staffed to maximum capacity. With the eQueue, however, all agents can effectively handle all types of contacts, coverage is more flexible, fewer agents can handle the same demand, and idle agents can be minimized. Agent productivity is also increased through the use of features such as skills-based routing, remote agent support, unified reporting of all media types, quality monitoring and dynamic supervisory control.

- **Lower Total Cost of Ownership**

  The eQueue solution offers an overall total lower cost of ownership—lower capital costs and lower operating costs, which equates to a higher return on investment. Integration costs are kept to a minimum with eQueue's set of applications and open platform. Because the eQueue architecture is open and modular, the contact center is also prepared for future growth.

eConn

The Company's eConn IP-PBX provides enterprises with a scalable, multi-feature communications system designed to support businesses from 10 to 1,000 users. The eConn provides enterprises PBX capability plus a range of applications including voice messaging, auto–attendant, ACD and wireless connectivity.

Operating across virtually any LAN/WAN infrastructure, the eConn provides IP networking allowing for transparency within distributed environments by supporting networking standards such as IP-QSIG. The system's flexibility and features ensure the needs of organizations are met by protecting existing investments in traditional circuit switched technology while delivering a converged, Voice over IP (VoIP) infrastructure.

Benefits of eConn

- eConn's software supports hundreds of telephony features—features that are delivered to many user environments through easy-to-use interfaces, such as its graphical-user-interface (GUI) system administration tool.
- The eConn supports a wide range of desktop devices including entry-level IP phones, executive-style IP phones, wireless handsets (WiFi or IP DECT) and full-duplex audio conference units.
- Combined with the eConn IP Messenger, the eConn IP-PBX also supports a suite of applications, including unified communications, presence management, call handling tools, unified messaging and mobility applications.
- Industry standard CTI applications are also supported for extensive third-party applications through the eConn's native CSTA interface.

Subsequent to the general release of the eConn to customers in the first fiscal quarter of 2011, the product did not reach the anticipated level of market acceptance. Consequently, the Company recorded an impairment charge of approximately $916,000 as of July 31, 2011.

IP Messenger (IPM)

As a unified communications platform, the IP Messenger is designed to improve and simplify internal and external communication flows between employees, customers and suppliers. The IPM provides both voice and unified messaging in conjunction with eOn's Millennium, eQueue and eConn systems. IPM can also be sold as a stand-alone messaging solution.

Benefits of IP Messenger

- The platform is aimed at improving these relationships and interactions, while at the same time lowering operating costs, protecting infrastructure investments and ensuring you meet the needs of a diverse user environment—from desktop workers, to mobile workers, corridor warriors and telecommuters. IP Messenger delivers: Presence, Mobility and Messaging.

Cortelco Products

The telephone industry has evolved in recent years with cordless telephones, cell phones, VOIP and other computer based voice/data products broadening their scope of application. Most homes in the United States have moved to cordless products and have perhaps one corded or wired telephone. Despite the decline in the number of corded telephones in the residential market, there has been less migration to cordless and cellular in the business/commercial, government and institutional applications. Cortelco is an industry leader that markets a traditional design/style single line corded telephones and IP phones. In order to maintain this leadership, Cortelco must leverage its existing business relationships and introduce new products that address the needs of the converging communications marketplace.

CSPR Products

Cortelco Systems Puerto Rico's core business includes the design, implementation and maintenance of solutions in the area of voice, data center and security. CSPR's other lines of business include the reselling of telephone lines, internet access, disaster recovery, business continuity and private cloud computing solutions. CSPR has partnered with strategic suppliers and utilizes a direct sales force to sell its services and products, most of which are installed by CSPR technicians.

CUSTOMERS

During fiscal year 2011, the Company recognized revenue from the federal government of $735,000, or 3% of total revenue. Revenue from four major distributors was $9,285,000 or 40% of net revenue for the year ended July 31, 2011. Revenue from one of these distributors, Graybar Electric Co., Inc., was $3,950,000 or 17% of the net revenue for the year ended July 31, 2011.

STRATEGY

Key elements of our strategy for future growth are as follows:

- **Provide Migration Paths to Encourage Millennium Customer VoIP Adoption**

  Many existing Millennium customers require that they be able to support more VoIP based applications. Since the Millennium has an architecture that supports traditional TDM switching and IP-based transmission technology, eOn is able to provide a solution that allows customers to migrate to IP at their own pace and ultimately reap the cost savings and business performance enhancement benefits of converged networks. eOn offers customer migration programs to encourage IP adoption, that preserve a customer's existing investment in the Millennium system.

- **Maintain Our Investment in the eQueue Business**

  In spite of the maturity of the North American market, we believe our eQueue Contact Center Solution offers advantages that remain viable. We will continue selling and supporting the core eQueue product offering to improve our ability to win competitive bids and provide additional solutions to our existing customers.

- **Maintain and Develop Strategic Relationships**

  eOn and Cortelco believe that it is critical that strategic relationships with major distributors be maintained and enhanced. The Company seeks new relationships that fit and do not create conflicting efforts within its distributor network. In the highly competitive telephony business, Cortelco sells both traditional and IP products which enable the Company to enjoy good baseline revenue while at the same time establishing itself in the emerging IP market. Product sales are based on a reputation for quality and service that has been built over many years.

- **Production and Logistics**

  Unlike many providers of telephony products, the Company has extensive warehouse, shipping, repair, and final assembly capabilities at our Corinth, MS facility. This enables us to provide a level of service many of our competitors can not.

- **Introduce a new VOIP Platform**

  In late 2010, eOn introduced a new VOIP platform that will support PBX and ACD functions. The goal is to provide all of the features inherent in our existing products while at the same time improve our capability to seamlessly network over distributed environments.

PRODUCTS AND PRODUCTS UNDER DEVELOPMENT

Millennium Converged Communications Platform

- **CTI**

  The Millennium offers a standards-based computer/telephony integration (CTI) solution that includes support for native CSTA interfaces and third-party TAPI, TSAPI and CSTA applications. It provides customers with a common open-platform for building cost-effective computer telephony solutions. Through integration with existing customer databases and third-party TAPI applications, the Millennium can provide visual call control and call monitoring to enable presentation of caller information based on Caller ID, ANI, or DNIS.

- **IP Messenger (IPM)**

  The IP Messenger (based on a platform from Esna Technologies) is a sophisticated voice messaging system. eOn sells this system for use with the Millennium, eQueue and eConn; as the Esna Technologies platform evolves, eOn continues to develop the interface between IP Messenger and these systems.

eQueue Multi-Media Contact Center Solution

- **eQueue Interfaces**

  eQueue Interfaces, including industry-standard CTI, gives companies the extensibility and integration tools necessary to customize the eQueue solution to meet the specific needs of each customer. The eQueue can be tightly integrated with other enterprise applications—including CRM, knowledge bases, self-service applications and e-commerce systems.

eConn

eOn developed a new VOIP platform ("eConn") which first became available in the first quarter of fiscal year 2011. This new platform supports over 500 telephony features which can be delivered through a new easy-to-use graphical user interface ("GUI"). The eConn platform provides options to add unified messaging, auto-attendant, presence management tools and mobility applications. eConn utilizes a native Computer-Supported Telecommunications Applications ("CSTA") interface making it easier to support an extensive range of third-party Computer Telephony Integration ("CTI") applications.

Subsequent to the general release of the eConn to customers in the first fiscal quarter of 2011, the product did not reach the anticipated level of market acceptance. Consequently, the Company recorded an impairment charge of approximately $916,000 as of July 31, 2011.

Cortelco

Cortelco focuses its resources on developing and marketing telephony products that help businesses communicate more effectively, efficiently, and reliably with their customers. Communications technology is a critical factor for businesses in their effort to gain a competitive edge. To enable businesses to succeed in this area, Cortelco offers corded and cordless analog and digital telephones capable of operating in the multiple PBX, Key System and Centrex environments.

- **Corded**

  Cortelco offers a wide variety of corded telephones in multiple colors and with multiple features (including message waiting indicator, flash, hold, mute, speakerphone, headset capable and one to four line models) for home, office, warehouse, shop or other business use. Models include traditional 2500 desk and 2554 wall models with multiple features and colors. Cortelco offers several models and model families which focus on business, schools, healthcare and other institutional applications. Cortelco also offers products that target markets for the aged and disabled with models that feature large easy-to-see dial buttons, emergency one-touch dial memory, Braille key pad, and large backlit LCD displays.

- **Cordless**

  Cortelco has new products slated for introduction, including DECT (Digital Enhanced Cordless Telecommunications) cordless as well as expanded corded line powered caller ID models.

- **SIP VOIP**

  Cortelco is introducing new SIP (Session Initiation Protocol) VoIP telephones to expand our Internet Protocol (IP) family of products, which have been certified to comply with equipment manufactured by the largest IP network equipment supplier in the United States. Further expansion of the IP family of products is planned.

SALES AND MARKETING

In North America, we sell, install, maintain and support our eQueue Multi-Media Contact Center through our direct sales force and through selected value added resellers (VAR). We sell the Millennium through our network of U.S. based dealers and VAR. Installation and support of Millennium systems is largely performed by the eOn dealer and VAR network. eNterprise SIP Business phones are to be sold through VoIP equipment suppliers and distributors.

Our marketing objective is to position eOn as a proven provider of enterprise communications and contact center solutions. Our target customer base continues to be mid-size businesses that are looking to deploy or replace their legacy communications systems with next generation IP telephony and contact center solutions. We will continue to promote solutions within selected market segments, including the U.S. Federal Government, education/school systems and providers of outsourced contact center solutions. We will continue to reach prospects in these markets via web-based marketing initiatives, customer referral programs and joint marketing efforts with our US and international dealers and VARs.

Cortelco products are sold through several distribution channels. An integral part of Cortelco's strategy is to strengthen and protect its relationships with resellers, distributors and other vendors to encourage these parties to recommend or distribute Cortelco's products and to add resellers both domestically and internationally. Cortelco currently invests, and intends to continue to invest, significant resources to expand its sales and marketing capabilities.

Cortelco's marketing objective is to offer competitively priced, but with superior quality and reliability, customer premise communication equipment through our distributor channel. Our distributor's target customer base consists of businesses, government, schools, healthcare and other institutions that seek legacy as well as IP telephone equipment.

RESEARCH AND DEVELOPMENT

The market for our products is characterized by rapidly changing technology, evolving industry standards and frequent product introductions. No major new internal development projects are planned at this time. We will continue to evaluate the competitive landscape and make a determination as to the return on investment on any new development on an ongoing basis.

Cortelco's approach is to identify market and product applications that fit core competencies as well as to seek new technologies. Cortelco does not engage in product development engineering, but rather partners with companies that either already have the desired technology or possess the technical background to develop the desired products. The merger with eOn provides additional technical resources that can be applied, on an as needed basis, to evaluate new products and particularly those for VOIP applications. Cortelco's "vendor/partner" strategy has resulted in favorable credit terms and the ability to buy small quantities of many models with various colors and features as well as avoid the large cost of baseline hardware and software engineering and development.

MANUFACTURING

Contract manufacturers were used to produce the Millennium—Ayrshire Electronics, Inc (formerly ACT Electronics, Inc.), and Innovative Circuits, Inc. Both contract manufacturers perform printed circuit board assembly and soldering, in-circuit and functional testing and packaging. After final assembly by either manufacturer, we inspect and perform quality assurance testing prior to shipment to our dealers or customers. Purchases from Ayrshire and Innovative Circuits were made through purchase orders.

We depend on sole source suppliers for certain components, digital signal processors and chip sets, and voice processor boards. Interruptions in the availability of components from our key suppliers could result in

delays or reductions in product shipments, which could damage our customer relationships and harm our operating results. Finding alternate suppliers or modifying product designs to use alternative components could cause delays and result in additional expenses.

Cortelco buys many of its product families from various offshore suppliers with whom we have worked for several years. We manufacture our 2500/2554/3554 product lines from both offshore and domestically produced components at our Corinth, Mississippi facility. We are dependent on sole source suppliers for certain components and finished goods. Interruptions in the availability of these items from our key suppliers could result in delays or reductions in product shipments, which could damage our customer relationships and harm our operating results. Finding alternate suppliers or modifying product designs to use alternative components could cause delays and result in additional expenses.

COMPETITION

We expect competition to intensify as competitors develop new products, new competitors enter the market, and companies with complementary products enter into strategic alliances.

The competitive arena for our products is changing very rapidly. Well-established companies and many emerging companies are developing products to address the PBX, ACD, VoIP and Multi-Media Contact Center markets. While the industry remains fragmented, it is rapidly moving toward consolidation, driven by both emerging companies' desires to expand product offerings and established companies' attempts to acquire new technology and reach new market segments.

We compete on the basis of providing reliable integrated voice and data communications systems that can be customized and configured rapidly and at a low cost. Although we believe that we compete favorably with respect to these factors, we may not be successful in this rapidly changing and highly competitive market.

Many of our current and potential competitors have significantly greater financial, technical, marketing, customer service and other resources, greater name recognition and a larger installed customer base than we do. Therefore, our competitors may be able to respond to new or emerging technologies and changes faster than we can. They may also be able to devote greater resources to the development, promotion and sale of their products. Actions by our competitors could result in price reductions, reduced margins and loss of market share, any of which would damage our business.

Our current and potential competitors can be grouped into the following categories:

- **VoIP Communications Equipment Suppliers**

  Our major competitors for the Millennium are the companies that provide products for the traditional voice communications market. These products include PBXs, voicemail systems and related products. These companies include Avaya, Mitel, NEC, Toshiba, and Siemens.

- **VoIP Telephone Suppliers**

  Our major competitors for the eNterprise SIP Business Telephones include Polycom, Aastra, Linksys, Snom, and Grandstream among others. Each providesVoIP phones families that are compatible with major VoIP softswitch suppliers.

- **Contact Center Vendors**

  Our major competitors for the eQueue are the traditional ACD or call center vendors who have large customer bases, brand recognition, reliable scaleable product offerings and have extensive experience with voice applications. However, their contact center solutions often consist of multiple separate technologies with little integration, have proprietary system architectures, and are expensive.

These competitors include Avaya, and Aspect Software. We also face competition from other contact center competitors that feature integrated applications (all-in-one products) that are built on Intel hardware platforms.

These vendors include Interactive Intelligence and Syntellect.

- **Data Communications Equipment Suppliers**

  Many data communications equipment suppliers have a strategic objective of penetrating the voice communications and customer interaction management market, thereby substantially expanding their total served market. Foremost of these data-centric companies pursuing this strategy is Cisco Systems. Although data communications companies generally do not have substantial experience with voice communications systems, these companies can be expected to compete intensely in this market.

- **Application Solution or Hosted Solution Providers**

  Emerging areas for competitors are firms that deliver enterprise communications and contact center functionality from a web based hosted platform. Oracle, Five9, and 8 X 8 are examples of companies offering this model in the market place. Advantages typically promoted are investment flexibility with monthly or transaction based licensing, immediate access to technology upgrades, and disaster recovery options. Business issues that must be considered include IP voice quality, system and application scalability, and limitations in system management and control.

- **Cortelco Competition**

  The market in which Cortelco participates is intensely competitive, rapidly evolving and subject to technological changes. Cortelco considers KGP Logistics (formerly Embarq or Sprint North Supply), Telematrix (SciTec), Vtech (AT&T), Aastra and Panasonic to be key competitors for current products. Key competitive factors include product quality, features, functionality, product differentiation and reputation. Cortelco does not sell into the extremely competitive and low margin retail market but rather sells products into the commercial, government, independent telephone companies and various institutional markets.

- **CSPR Competition**

  The telecommunications market in Puerto Rico is highly competitive with competition grouped into three categories: carriers, integrators and small owner-operated companies. Carriers such as Puerto Rico Telephone Company / Claro and Worldnet have large market penetration with large resources. Integrators such as Intech and Netxar are similar in size and expertise as CSPR. Small owner-operated companies such as NPR, Computer Paradise, Benchmark and Envision compete aggressively against CSPR due to their low overhead.

INTELLECTUAL PROPERTY

We rely on patent, trademark, copyright, trade secret protection and confidentiality and license agreements with our employees, clients, partners and others to protect our proprietary rights. We currently have numerous patents issued in the United States related to our business.

Our patent position, and that of technology companies in general, involves complex legal and factual questions and, therefore, the validity and enforceability of our patents cannot be predicted with certainty. The steps we have taken to protect our proprietary rights might not be adequate. Third parties might infringe or misappropriate our patents, trade secrets, trademarks and similar proprietary rights. Furthermore, others might independently develop or duplicate technologies similar to ours.

If we fail to protect our intellectual property, our business, financial condition and results of operations could be harmed. In addition, we may have to litigate to enforce our intellectual property rights, protect our trade

secrets or determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management and technical resources, which could harm our business, financial condition and results of operations.

"eOn," "eQueue," "Millennium", "eNterprise", "WorkSpace", "eConn", "Cortelco", "Centurion", "Tel-Flash", "Tel-Trex", & "Trendline" are trademarks of eOn and Cortelco.

ENVIRONMENTAL LAW COMPLIANCE

Our operations are affected by federal, state and local environmental laws. The Company makes every effort to comply with all laws deemed applicable. While we cannot predict with certainty future costs for environmental compliance, we do not believe they will have a material effect on our earnings or our competitive position.

EMPLOYEES

As of July 31, 2011, we had 86 employees. We had 85 employees in the United States (including 53 in Puerto Rico) and 1 employee in Canada. The mix of employees was 20 in sales and marketing, 3 in research, development, and professional services, 18 in general and administration, and 45 in manufacturing and distribution. The Company also utilizes temporary employees, independent contractors, and part-time employees as needed. None of our employees are represented by a labor union and we consider our employee relations to be good.

EXECUTIVE OFFICERS

The following table sets forth information about our Directors and Executive Officers:

NAME	AGE	POSITION
David S. Lee	**74**	**Chairman and Director**
James W. Hopper	**67**	**Chief Executive Officer and Director**
Lee M. Bowling	**56**	**Chief Financial Officer**

DAVID S. LEE, became the Chairman of the Board of eOn in 1991. From 2003 until June 2008, he served as President and Chief Executive Officer. Previously Mr. Lee served as Chief Executive Officer from May 2000 through August 2001. Mr. Lee is a director of Linear Technology Corporation, a semiconductor company, and Vizio, a consumer electronics company, Chairman of Symbio, a global outsourcing company, and serves as a Senior Advisor for Silver Lake, a private equity investment firm for technology. Mr. Lee is also Regent Emeritus for the University of California. From 1985 to 1988, Mr. Lee was President and Chairman of Data Technology Corporation, a computer peripheral company. Prior to 1985, he was Group Executive and Chairman of the Business Information Systems Group of ITT Corporation, a diversified company, and President of ITT Qume, formerly Qume Corporation, a computer systems peripherals company. In 1973, Mr. Lee co-founded Qume Corporation and was its Executive Vice President until the company was acquired by ITT Corporation in 1978. Mr. Lee received an M.S. from North Dakota State University and a B.S. and an honorary doctorate from Montana State University.

JAMES W. HOPPER, became Chief Executive Officer and director of eOn in June 2009. Prior to joining the Company, Mr. Hopper has been President of Cortelco, Inc. since 1997. Prior to 1997, he was Executive Vice President of Cortelco International, Inc., President and Chief Executive Officer of CMC Industries, and Executive Vice President and Plant Manager of Cortelco USA. Mr. Hopper's experience also includes thirty-five years with ITT Corporation where he held numerous senior management positions. He has served on the Board of Directors of CMC Industries, Cortelco Systems Puerto Rico, International Telecommunications Corp., Ringers, Inc., and KSS Mid-South, Inc. Mr. Hopper holds a B.B.A in Management and Economics from the University of Memphis.

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LEE M. BOWLING, became Chief Financial Officer of eOn in June 2009. Prior to joining the Company, Mr. Bowling has been Vice President and Chief Financial Officer of Cortelco, Inc. since 2004. Prior to 2004, Mr. Bowling was Controller of Cortelco, Inc from 1997 until 2004. Mr. Bowling currently serves as a director of Cortelco Systems Puerto Rico, a provider of installation and services of business telecom, data, and network security solutions throughout Puerto Rico. His experience also includes various supervisory and management positions with ITT Telecommunications and Telephone Electronics Corporation. Mr. Bowling holds a B.S. in Accounting from Mississippi State University.

ITEM 1A. RISK FACTORS.

RISK FACTORS

The following risk factors and other information contained in this report should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties that are not currently known to us or that we currently deem immaterial also may impair our business operations. If any of the following risks actually occurs, our business, financial condition, and operating results could be materially adversely affected.

In addition to the other information included in this report, the following factors should be considered in evaluating our business and future prospects.

eOn has experienced substantial losses and may continue to incur losses in the future.

For the year ended July 31, 2011, eOn had a net loss of $1,380,000. eOn has incurred substantial losses since inception resulting in an accumulated deficit of $49,769,000. eOn may not be able to achieve profitability from operations in the future.

Downturns in the U.S. economy adversely affect operating results.

Weakness in the U.S. economy has had a negative effect on our operating results. In an economic slowdown, we may also experience the negative effects of increased competitive pricing pressure and customer turnover. Worsening economic conditions or a prolonged or recurring recession could adversely affect our operating results. Further, we cannot assure you that an improvement in economic conditions will result in an immediate, if at all positive, improvement in our operating results or cash flows.

Fluctuations in our quarterly operating results could cause our stock price to decline.

Future operating results are likely to fluctuate significantly from quarter to quarter. Factors that could affect our quarterly operating results include:

- Delays or difficulties in introducing new products;
- Increasing expenses without commensurate revenue increases;
- Variations in the mix of products sold;
- Variations in the timing or size of orders from our customers;
- Delayed deliveries from suppliers and
- Price decreases and other actions by our competitors.

Our quarterly operating results are also likely to fluctuate due to seasonal factors. Some of our vertical markets, such as the U.S. government, educational and retail buyers, follow seasonal buying patterns and do not make substantial purchases during our fiscal quarters ending January 31. Thus, revenues in the quarters ending January 31 are often lower than in the previous quarters. Because of these and other factors, our operating results may not meet expectations in some future quarters, which could cause our stock price to decline.

Our communications systems face intense competition from many companies that have targeted our markets.

The competitive arena for our products is changing very rapidly and we face intense competition in our markets. Well-established companies and many emerging companies continue to develop products that improve communications, increase employee productivity and lower costs. While the industry remains fragmented, it is rapidly moving toward consolidation. A number of our current competitors have been recently acquired by

companies seeking to increase market share and their ability to compete. Additionally, robust open-source products have recently emerged in the market further lowering barriers to market entry and increasing competition.

Our products must respond to rapidly changing market needs and integrate with changing protocols to remain competitive.

The markets for our products are characterized by rapid technological change, frequent new product introductions, uncertain product life cycles and changing customer requirements. If we are not able to rapidly and efficiently develop new products and improve existing products to meet the changing needs of our customers and to adopt changing communications standards, our business, operating results and financial condition would be harmed.

Although the Company does not have any new products in internal development, Cortelco has partnered with companies that possess technical expertise to develop new products to meet changing market requirements.

Key features of our products include integration with standard protocols, computer telephony integration and automatic call distribution applications and protocols, operating systems and databases. If our products cannot be integrated with third-party technologies or if they do not respond to changing market needs, we could be required to redesign our products. Redesigning any of our products may require significant resources and could harm our business, operating results and financial condition.

We expect competition to intensify as competitors develop new products, new competitors enter the market, and companies with complementary products enter into strategic alliances.

Our current and potential competitors can be grouped into the following categories:

- Contact center vendors, such as Avaya and Aspect;
- Data communication equipment suppliers, such as Cisco Systems and Huawei;
- VoIP telephone manufacturers, such as Polycom, Linksys, Snom, Grand Stream and Aastra;
- Hosted solution providers including 8 X 8, Five9, Echopass and Oracle;
- Email management and web center software suppliers, such as eGain Communications, Kana Software, and LivePerson;
- Voice communications equipment suppliers, such as Avaya, Mitel, NEC, Toshiba, and Siemens;
- Customer relationship management (CRM) suppliers such as Oracle, and SalesForce.com; and
- Telephony product suppliers such as KGP Logistics, Telematrix, Vtech, Aastra, and Panasonic.

Many of our current and potential competitors have significantly greater financial, technical, marketing, customer service and other resources, greater name and brand recognition and a larger installed customer base than we do. Therefore, our competitors may be able to respond to new or emerging technologies and changes faster than we can. They may also be able to devote greater resources to the development, promotion and sale of their products.

Actions by our competitors could result in price reductions, reduced margins and loss of market share, any of which would damage our business. We cannot assure you that we will be able to compete successfully against these competitors.

We may not accurately forecast customer demand for our products.

We use forecasts of product demand to make decisions regarding the investment of resources and production of our product. Failure to accurately predict high customer demand for a product can result in lost sales or low gross margins on product incurring higher costs to meet demand. Failure to accurately predict low demand for a product can result in excess inventory, lower cash flows and lower gross margins if price reductions are required to reduce inventories.

If we cannot maintain our indirect sales channels, our ability to generate revenue would be harmed.

A significant portion of our revenues are derived from dealers and value added resellers who have no obligation to sell our products. Therefore, dealers and value added resellers could discontinue selling our products at any time in favor of our competitors' products or for any other reason. A reduction or loss of orders from our dealers and value added resellers could harm our business, operating results and financial condition.

The lengthy sales cycles of some of our products and the difficulty in predicting the timing of our sales may cause fluctuations in our quarterly operating results.

The uncertainty of our sales cycle makes the timing of sales difficult to predict and may cause fluctuations in our quarterly operating results. Our sales cycles generally vary from four to twelve months for our eQueue products and from one to six months for our Millennium voice switching platform. The purchase of our products may involve a significant commitment of our customers' time, personnel, and financial and other resources. Also, it is difficult to predict the timing of indirect sales because we have little control over the selling activities of our dealers and value added resellers.

We incur substantial sales and marketing expenses and spend significant management time before customers place orders with us, if at all. Revenues from a specific customer may not be recognized in the quarter in which we incur related sales and marketing expense, which may cause us to miss our revenues or earnings expectations.

Our strategic relationships with third parties may not be successful.

Our ability to develop our business will depend on our ability to identify partnership opportunities and to enter into suitable commercial arrangements and to maintain close working relationships with these and other industry participants. Our success in this area will also depend on our ability to select and evaluate suitable projects, as well as to consummate transactions in a highly competitive environment.

To develop our business, we plan to use the business relationships of our management team in order to form strategic relationships. These relationships may take the form of joint ventures with other private parties and local government bodies and contractual arrangements with other companies. We may not be able to establish these strategic relationships, or, if established, may not be able to maintain these relationships, particularly if members of the management team leave us. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to incur or undertake to fulfill our obligations to these partners and/or maintain these relationships. If we do not successfully establish or maintain strategic relationships, we may not be able to achieve our business goals and that could adversely affect our anticipated results of operations and financial condition.

Delayed deliveries of components from our single source suppliers or third-party manufacturers could reduce our revenues or increase our costs.

We depend on sole source suppliers for certain components, digital signal processors and chip sets, and voice processor boards. Interruptions in the availability of components from our key suppliers could result in

delays or reductions in product shipments, which could damage our customer relationships and harm our operating results. Finding alternate suppliers or modifying product designs to use alternative components may cause delays and expenses. Further, a significant increase in the price of one or more third-party components or subassemblies could reduce our gross profit.

We depend upon our primary contract manufacturers Ayrshire Electronics, Innovative Circuits, and Clover Electronics. We may not be able to deliver our products on a timely basis if any of these manufacturers fail to manufacture our products and deliver them to us on time. In addition, it could be difficult to engage other manufacturers to build our products. Our business, results of operations and financial condition could be harmed by any delivery delays.

We buy many of our Cortelco products from various offshore suppliers with whom we have worked for several years. We are dependent on sole source suppliers for certain components and finished goods. Interruptions in the availability of these items from our key suppliers could result in delays or reductions in product shipments, which could damage our customer relationships and harm our operating results. Finding alternate suppliers or modifying product designs to use alternative components could cause delays and result in additional expenses.

We may be unable to hire and retain engineering and sales and marketing personnel necessary to execute our business strategy.

Competition for highly qualified personnel is intense due to the limited number of people available with the necessary technical skills, and we may not be able to attract, assimilate or retain such personnel. If we cannot attract, hire and retain sufficient qualified personnel, we may not be able to successfully develop, market and sell new products.

Our business could be harmed if we lose principal members of our management team.

We are highly dependent on the continued service of our management team. The loss of any key member of our management team may substantially disrupt our business and could harm our business, results of operations and financial condition. In addition, replacing management personnel could be costly and time consuming.

We are effectively controlled by our principal stockholders and management, which may limit your ability to influence stockholder matters.

As of September 30, 2011, our executive officers, directors and principal stockholders and their affiliates beneficially owned 869,669 shares, or 29.6% of the outstanding shares of common stock. Thus, they effectively control us and direct our affairs, including the election of directors and approval of significant corporate transactions. This concentration of ownership may have the effect of delaying, deferring or preventing a change in control of our company and some transactions may be more difficult or impossible without the support of these stockholders. The interests of these stockholders may conflict with those of other stockholders. We also conduct transactions with businesses in which our principal stockholders maintain interests. We believe that these transactions have been conducted on an arm’s length basis, but we cannot assure you that these transactions would have the same terms if conducted with unrelated third parties.

We may not be able to protect our intellectual property, and any intellectual property litigation could be expensive and time consuming.

Our business and competitive position could be harmed if we fail to adequately protect our intellectual property. Although we have filed patent applications, we are not certain that our patent applications will result in the issuance of patents, or that any patents issued will provide commercially significant protection to our technology. In addition, as we grow and gain brand recognition, our products are more likely to be subjected to

infringement litigation. We could incur substantial costs and may have to divert management and technical resources in order to respond to, defend against, or bring claims related to our intellectual property rights. In addition, we rely on a combination of patent, trademark, copyright and trade secret laws and contractual restrictions to establish and protect our proprietary rights. These statutory and contractual arrangements may not provide sufficient protection to prevent misappropriation of our technology or to deter independent third-party development of similar technologies. Any litigation could result in our expenditure of funds, management time and resources.

Our products may have undetected faults leading to liability claims, which could harm our business.

Our products may contain undetected faults or failures. Any failures of our products could result in significant losses to our customers, particularly in mission-critical applications. A failure could also result in product returns and the loss of, or delay in, market acceptance of our products. In addition, any failure of our products could result in claims against us. Our purchase agreements with our customers typically contain provisions designed to limit our exposure to potential product liability claims. However, the limitation of liability provisions contained in our purchase agreements may not be effective as a result of federal, state or local laws or ordinances or unfavorable judicial decisions in the United States or other countries. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover all possible claims asserted against us. In addition, even claims that ultimately are unsuccessful could be expensive to defend and consume management time and resources.

Our charter contains certain anti-takeover provisions that may discourage take-over attempts and may reduce our stock price.

Our board of directors has the authority to issue up to 10,000,000 shares of preferred stock and to determine the preferences, rights and privileges of those shares without any further vote or action by the stockholders. The rights of the holders of common stock may be harmed by the rights of the holders of any preferred stock that may be issued in the future. Certain provisions of our certificate of incorporation and bylaws may make it more difficult for a third party to acquire control of us without the consent of our board of directors, even if such changes were favored by a majority of the stockholders. These include provisions that provide for a staggered board of directors, prohibit stockholders from taking action by written consent and restrict the ability of stockholders to call special meetings.

Future sales of shares may decrease our stock price.

Sales of substantial amounts of our common stock in the public market, including shares issued upon the exercise of outstanding options, or the perception that such sales could occur, could reduce the market price of our common stock. These sales also might make it more difficult for us to raise funds through future offerings of common stock.

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ITEM 2. PROPERTIES.

The Company leases property as detailed in the following table.

LOCATION	APPROXIMATE SIZE	LEASE EXPIRATION DATE	INTENDED USE
Corinth, Mississippi, USA	77,000 sq. ft.	Month-To-Month	Office/Warehouse
Caguas, Puerto Rico	17,236 sq. ft.	August 2019	Office/Warehouse

Aggregate annual rental payments for the Company's facilities are approximately $268,000. The Company's current facilities are generally adequate for anticipated needs over the next 12 to 24 months. The Company does not own any real property.

ITEM 3. LEGAL PROCEEDINGS.

As of the acquisition date, CSPR had a contingent liability associated with a property tax audit. The Municipal Revenue Collection Center of Puerto Rico ("CRIM") conducted a personal property tax audit for the years 1999 and 2000 which resulted in assessments of approximately $320,000 (approximately $514,000 as of August 31, 2011, including interest and penalties). The assessments arose from CRIM's disallowances of certain credits for overpayments from 1999 and 2000, claimed in the 2001 through 2003 personal property tax returns. During the audit process, CRIM alleged that some components of the inventory reported as exempt should be taxable. The parties met several times and an informal administrative hearing was held on September 27, 2006. CSPR submitted its position in writing within the time period provided by CRIM. CSPR believes it has strong arguments to support its position that the components of inventory qualify as raw material. However, management believes a settlement may be reached for an amount less than the assessment. Accordingly, the Company has recorded a liability of $80,000 as of July 31, 2011 and 2010.

The Company is a party to various asbestos claims. It is the opinion of management that these claims are without merit and, individually or in the aggregate, will not materially and adversely affect our business or financial condition.

From time to time, we may be a party to legal proceedings incidental to our business. We do not believe that any of these proceedings will have a material adverse effect on our business or financial condition.

ITEM 4. (REMOVED AND RESERVED).

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PART II

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

Market Information

Our common stock began trading on the NASDAQ Stock Market under the symbol EONC on February 4, 2000. Prior to that date, there was no public market for our common stock. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices of our common stock as reported by the NASDAQ Stock Market.

QUARTER ENDED	HIGH	LOW
July 31, 2011	$2.81	$1.30
April 30, 2011	$2.00	$1.30
January 31, 2011	$3.26	$1.77
October 31, 2010	$2.60	$1.34
July 31, 2010	$2.70	$1.35
April 30, 2010	$5.14	$2.55
January 31, 2010	$7.10	$1.40
October 31, 2009	$1.53	$0.79

The prices in the table above represent inter-dealer prices, without retail mark-up, mark-down or commission and may not reflect actual transactions.

Holders

As of September 30, 2011, there were approximately 225 shareholders of record of our common stock and, to the best of our knowledge, approximately 2,800 beneficial owners whose shares of common stock were held in the names of brokers, dealers, and clearing agencies.

Dividends

During fiscal 2011 and 2010, we did not declare any cash dividends on our capital stock. We currently intend to retain any earnings to finance the operation and expansion of our business and, therefore, do not expect to pay cash dividends on our common stock in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

Information with respect to Equity Compensation plans is set forth under Part III of this report under the caption "Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Recent Sales of Unregistered Securities

On April 1, 2009, the Company acquired Cortelco for up to $11,000,000 in cash. Cortelco merged with a newly formed wholly-owned subsidiary of eOn and is now a wholly-owned subsidiary of eOn. David Lee, Chairman of eOn, was the Chairman and the controlling shareholder of Cortelco. In exchange for all of the outstanding shares of Cortelco stock, Cortelco shareholders received an initial aggregate payment of $500,000. The Company executed a note payable to Cortelco's former shareholders for $10,500,000. The note is non-interest bearing and is contingent primarily upon the level of Cortelco earnings after closing and all Cortelco shareholders are eligible to receive quarterly payments thereunder in cash until the full consideration has been paid. The note was issued pursuant to an exemption from registration under The Securities Act of 1933 in reliance upon Section 4(2) and Regulation D. The fair value of the note payable obligation assumed on the April 1, 2009 acquisition date was estimated using a discounted cash flow method, and together with approximately $124,000 in acquisition costs, resulted in a total purchase price of $5,054,000.

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On June 9, 2010, the Company executed a Stock Purchase Agreement to purchase 501,382 shares of common stock of Cortelco Systems Puerto Rico, Inc. ("CSPR") from David S. Lee, eOn's Chairman. The acquisition of CSPR stock was completed on June 9, 2010. The consideration for the CSPR shares consists of (i) 90,959 Company shares of stock, issued to Mr. Lee effective June 9, 2010, (ii) a cash payment of $185,511.34, payable in three annual installments, with the initial installment due on June 9, 2011, (iii) and the right to share in sale proceeds received by the Company if the Company sells the CSPR shares on or before June 9, 2013 for a price that is more than the Company paid for the shares. The number of eOn shares issued to Mr. Lee was calculated based on the average closing price of eOn Shares for thirty (30) trading days ending on June 8, 2010. The Company has the right to require Mr. Lee to repurchase the CSPR shares at the price paid by the Company on or after June 9, 2013, but before June 9, 2014.

Stock Repurchases in the Fourth Quarter

None.

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

OVERVIEW

eOn Communications Corporation™ ("eOn" or the "Company") is a provider of communications solutions. Backed with over 20 years of telecommunications engineering expertise, the Company's solutions enable its customers to use the eOn products to communicate more effectively. eOn's offerings are built on open architectures that enable adoption of emerging technologies, such as Voice over Internet Protocol (VoIP) and concepts such as Service Oriented Architectures (SOA).

The Company completed its acquisition of Cortelco on April 1, 2009. For additional information, refer to the amended and restated Merger Agreement among the Company, Cortelco Holding, and a subsidiary of the Company, setting forth the terms and conditions of the acquisition, filed as an exhibit to the Company 8-K dated as of December 18, 2008. Cortelco, Cortelco Holding's wholly owned subsidiary, provides customer premise equipment (CPE) commercial grade telephone products primarily for use in businesses, government agencies, colleges and universities, telephone companies, and utilities. Cortelco has formed strategic alliances with distributors and provides the support needed to supply customers with quality sales, marketing, customer service, technical support, and training.

On June 9, 2010, the Company executed a Stock Purchase Agreement to purchase 501,382 shares of common stock of Cortelco Systems Puerto Rico, Inc. ("CSPR") from David S. Lee, eOn's Chairman. The acquisition of CSPR stock was completed on June 9, 2010 and combined with the shares already owned by the Company, establishes eOn Communications as the majority shareholder of Cortelco Systems Puerto Rico. For additional information, refer to the Stock Purchase Agreement between the Company and David S. Lee, setting forth the terms and conditions of the acquisition, filed as an exhibit to the Company 8-K dated as of June 9, 2010. CSPR's operations include the sale and service of integrated communications systems, data equipment, security products and telephony billing services. CSPR is a registered company under the Security and Exchange Commission ("SEC"). On July 30, 2009, CSPR filed Form 15, Certification and Notice of Termination of Registration under section 12(g) of the Securities Exchange Act of 1934 or suspension of duty to file reports under sections 13 and 15(d) of the Securities Exchange Act of 1934, and discontinued all SEC filing requirements.

The Company had a net loss of $1,380,000 attributable to common shareholders for fiscal year 2011. The increase in revenue and gross margin resulting from the acquisition of CSPR was partially offset with lower eQueue and Millennium revenue and imputed interest on the note payable to Cortelco's shareholders. Imputed interest is dependent on Cortelco's projected earnings and resulting payments pursuant to the note payable to Cortelco's former shareholders. Cash flows generated by Cortelco subsequent to the merger will first be used to pay the obligation under the merger agreement until the full $11,000,000 is satisfied.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and that could potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed description of our accounting policies, see Footnote 2, "Summary of Significant Accounting Policies," in the notes to the consolidated financial statements.

Revenue Recognition

The Company's revenues from its six product lines are the result of separate, individual deliverables:

	Type of Revenues Earned		
Product Line	**Equipment/Software**	**Professional Services**	**Maintenance Contracts**
Millennium PBX System	Individual sale		
eQueue Contact Center System	Individual sale	Individual sale	Individual sale
VOIP Telephones	Individual sale		
Cortelco Products	Individual sale		
CSPR Products	Individual sale	Individual sale	Individual sale
CSPR Telephony Billing		Individual sale	

Because the eQueue system is very flexible in its applications, some customers contract for professional services to tailor their system to specific requirements. Professional services are invoiced separately upon completion. eQueue customers can also elect to enter into maintenance contracts to receive software updates and free technical support. Revenue is booked quarterly for each maintenance period as provided. The VOIP phones can be deployed with either the Millennium or eQueue systems to provide lower call costs as well as flexible telecom management across multiple locations. These phones may be sold with a new system, but are often sold subsequent to the system sale.

Telephony billing revenues from the resale of Puerto Rico Telephone services are recognized monthly as services are provided to the customers.

Revenues from our products are recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectibility is reasonably assured. Generally, revenue is recognized (1) upon shipment for equipment and software, (2) as work is performed for professional services, and (3) in equal periodic amounts over the term of the contract for software and hardware maintenance. The Company's revenue recognition policies are in accordance with Staff Accounting Bulletin No. 104, *Revenue Recognition*, and Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 985, *Software.*

Product Warranties

We generally provide customers a one year product warranty from the date of purchase. Warranty for the Cortelco product line ranges from one to five years based on the product purchased. We estimate the costs of satisfying warranty claims based on analysis of past claims experience and provide for these future claims in the period that revenue is recognized. The cost of satisfying warranty claims, which approximates 0.4%—2.1% of product revenues, has historically been comprised of materials and direct labor costs. We perform quarterly evaluations of these estimates and any changes in estimates, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

Inventory Obsolescence

We carry inventories at the lower of cost or market. This policy depends on the timely identification of those items included in inventory whose market price may have declined below carrying value, such as slow-moving or obsolete items, and we record any necessary valuation reserves. We perform an analysis of slow-moving or obsolete inventory on a quarterly basis and any necessary valuation reserves, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

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Software Development

We capitalize costs for developing software upon determination that technological feasibility has been established for the product, if that product is to be sold, leased or otherwise marketed. Costs incurred prior to the establishment of technological feasibility are charged to research and development expense. When the product or enhancement is available for general release to customers, capitalization is ceased, and previously capitalized costs are amortized based on current and anticipated future revenues for the product, but with an annual amortization amount at least equal to the straight-line amortization over an estimated economic life of five years.

For the years ended July 31, 2011 and 2010, the Company capitalized eConn IP product software development costs of approximately $218,000 and $562,000, respectively. Amortization of the software development costs began in the first fiscal quarter of 2011. Subsequent to the general release of the eConn product to customers in the first fiscal quarter of 2011, the product did not reach the anticipated level of market acceptance. Consequently, the Company recorded an impairment charge of approximately $916,000 as of July 31, 2011.

Allowance for Uncollectible Accounts Receivable

We typically grant standard credit terms to customers in good credit standing. As a result, we must estimate the portion of our accounts receivable that are uncollectible and record any necessary valuation reserves. We generally reserve for estimated uncollectible accounts on a customer-by-customer basis, which requires us to make judgments about each individual customer's ability and intention to fully pay balances payable to us. We make these judgments based on our knowledge of and relationships with our customers and we update our estimates on a monthly basis. Any changes in estimate, which can be significant, are included in earnings in the period in which the change in estimate occurs.

Stock-Based Compensation

Stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

We currently use the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. Expected volatilities are based on historical daily closing prices adjusted for our expected future volatility. The Company believes that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. The Company uses historical information to calculate the expected life of option grants. The Company believes that historical information is currently reflective of the economic life of outstanding option grants. The dividend yield is determined by dividing the expected per share dividend during the coming year by the average fair market value of the stock during the period. The Company has not historically declared any cash dividends on our common stock. We currently intend to retain any earnings to finance the operation and expansion of our business and therefore do not expect to pay cash dividends on our common stock in the foreseeable future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The estimated fair value of the employee stock options are amortized to expense using the straight-line method over the vesting period.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants and employee stock purchase plan shares. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

See Note 11 Stock—Based Compensation to the consolidated financial statements for further information regarding ASC Topic 718, *Stock Compensation.*

Deferred Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Because of substantial losses from inception through fiscal year 2011, the Company has available net operating loss (“NOL”) carry-forwards of approximately $25,500,000.

Accounting principles generally accepted in the United States of America require the recording of a valuation allowance against the net deferred tax asset associated with this NOL and other timing differences if it is “more likely than not” that the Company will not be able to utilize the NOL to offset future taxes. Due to the size of the NOL carry-forward in relation to the Company’s taxable income in recent years and to the continuing uncertainties surrounding future earnings, to the extent that it is more likely than not that deferred tax assets may not be realized, management has provided for an allowance on its net deferred tax assets. The Company currently provides for income taxes only to the extent of expected cash payments of taxes, primarily state and foreign income taxes.

Should the Company’s earnings trend cause management to conclude that it is more likely than not the Company will realize all or a material portion of the NOL carry-forward, management would record the estimated net realizable value of its deferred tax asset at that time. The Company would then provide for income taxes at a rate equal to its combined federal and state effective rates, which would approximate 39% under current tax rates. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause the provision for income taxes to vary significantly from period to period, although the Company’s cash tax payments would remain unaffected until the benefit of the NOL is utilized.

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RESULTS OF OPERATIONS

The following table presents our statements of operations expressed as a percentage of net revenues for fiscal years 2011 and 2010:

	For the Years Ended July 31,	
	2011	2010
Net revenue	100.0%	100.0%
Cost of revenue	73.1%	64.0%
Gross profit	26.9%	36.0%
Operating expenses:		
Selling, general and administrative	24.6%	26.7%
Research and development	2.1%	2.7%
Asset impairment	3.9%	0.2%
Other	0.2%	0.4%
Total operating expense	30.8%	30.0%
(Loss) income from operations	(3.9%)	6.0%
Interest expense	(0.9%)	(4.0%)
Equity earnings of an unconsolidated investee	0.0%	0.4%
Gain on bargain purchase	0.0%	3.0%
Gain on investment	0.0%	0.1%
(Loss) income before income taxes	(4.8%)	5.5%
Income taxes	0.2%	1.5%
Net (loss) income from continuing operations	(5.0%)	4.0%
Loss from discontinued operations	(0.5%)	(0.8%)
Net loss	(5.5%)	3.2%
Less: net income attributable to the noncontrolling interest	0.4%	0.2%
Net (loss) income attributable to eOn Communications Corp. shareholders	(5.9%)	3.0%

NET REVENUE

Revenue is comprised of product revenue generated by our Millennium, eQueue, Cortelco and CSPR product lines and maintenance and professional service revenue generated by our eQueue and CSPR product line. Net revenue increased approximately 39% to $23,416,000 for the year ended July 31, 2011 from $16,797,000 for the previous fiscal year. The increase reflects $9,024,000 in CSPR revenue for the full fiscal year compared to approximately $1,236,000 for the two months in the prior year subsequent to the acquisition of CSPR on June 9, 2010. The increase in revenue is partially offset by lower eQueue revenue from products, maintenance and professional services, and lower Millennium revenue compared to the prior year.

COST OF REVENUE AND GROSS PROFIT

Cost of revenue is primarily comprised of purchases from our contract manufacturers and other suppliers and costs incurred for final assembly of our phones and systems. Gross profit from continuing operations increased approximately 4% to $6,307,000 for the year ended July 31, 2011 compared to $6,042,000 for the previous fiscal year. The increase in gross profit reflects inclusion of CSPR's gross profit and is partially offset by lower Millennium product and eQueue product, maintenance and professional service gross profit. Gross profit in the current fiscal year was negatively impacted by inventory reserve provisions for excess and obsolete inventory of approximately $629,000, excluding approximately $133,000 in inventory reserve provisions related

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to discontinued operations in China. Our gross margins were 27% and 36% for fiscal years 2011 and 2010, respectively. The decrease in margin percentage reflects higher inventory reserve provisions and lower maintenance and professional services revenue, which historically has higher margins. The inclusion of CSPR's operations beginning June 9, 2010, which historically has a lower margin, also contributed to the decline in gross margin percentages.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses were $5,750,000 for the year ended July 31, 2011, an increase of 28% from $4,491,000 in the prior fiscal year. The increase is primarily attributable to an increase of $1,540,000 in CSPR expenses due to inclusion of the full fiscal year compared to approximately two months in the previous fiscal year. The increase also reflects higher bad debt expenses, partially offset by lower personnel costs, overhead expenses and travel expenses.

RESEARCH AND DEVELOPMENT EXPENSE

Research and development expenses are primarily comprised of personnel and related expenses for our engineering staff. Our research and development efforts were concentrated on development of the new eConn IP-PBX. Research and development expenses were $483,000 for the year ended July 31, 2011, which represents a decrease of approximately 4% from $502,000 in fiscal year 2010. The decrease primarily reflects lower subcontract costs and overhead expenses. The Company capitalized approximately $218,000 of software development costs related to a new eConn IP PBX and IP ACD that were under development. Subsequent to the general release of the eConn IP PBX to customers in the first fiscal quarter of 2011, the product did not reach the anticipated level of market acceptance. Consequently, capitalized cost accumulated to-date were written off in the fourth quarter of the current fiscal year. Although not actively marketed, the Company continues to sell the eConn IP-PBX.

ASSET IMPAIRMENT

Asset impairment is comprised of software development and process technology impairment. Subsequent to the general release of the eConn IP PBX to customers in the first fiscal quarter of 2011, the product did not reach the anticipated level of market acceptance. Consequently, capitalizd costs of approximately $916,000 were written off in the fourth quarter of the current fiscal year. Based on management's evaluation of the carrying value of process technology, the Company recorded an impairment charge of approximately $41,000 as of July 31, 2010.

OTHER EXPENSE

Other income and expense is primarily comprised of bank service charges, franchise taxes, currency differences and gains or losses from disposal of fixed assets. Other expense was $50,000 in fiscal 2011 compared to an expense of $68,000 in fiscal year 2010.

INTEREST EXPENSE, NET

Interest expense was $219,000 in fiscal year 2011 and $671,000 in fiscal year 2010. Fiscal year 2011 reflects imputed interest of $206,000 on the note payable to the former Cortelco shareholders compared to $674,000 in fiscal year 2010. Interest expense on the Cortelco Note in fiscal year 2011 of $543,000 was partially offset by approximately $337,000 due to changes in estimated projected payments over the life of the note.

INCOME TAX EXPENSE

Income tax expense totaled $54,000 in fiscal 2011 and $248,000 in fiscal 2010. Income tax expense differed from tax expense at the statutory federal income tax rate due to state income taxes and the valuation allowance established.

DISCONTINUED OPERATIONS

Loss from discontinued operations of the Company's wholly-owned subsidiary in China was $125,000 in fiscal year 2011 and $133,000 in fiscal year 2010. The loss in fiscal year 2011 was negatively impacted by approximately $167,000 of inventory write downs and was partially offset by the reversal of approximately $107,000 in accumulated foreign currency adjustments.

LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2011, the Company had cash and cash equivalents of $1,542,000 compared to $4,108,000 as of July 31, 2010. The decrease in cash and cash equivalents of $2,566,000 during fiscal year 2011 was primarily attributable to increases in telephony product inventories in order to adequately service customers, new product offerings and special sales programs, additional accounts receivable due to increased sales volume at year-end, timing of cash collections and losses in the systems and services segment. The Company had a working capital balance of $7,504,000 at July 31, 2011.

Our operating activities resulted in net cash outflows of $1,420,000 for fiscal year 2011 compared to net cash inflows of $2,885,000 for fiscal year 2010. The decrease in net operating cash flow for the current fiscal year primarily reflects net loss (adjusted for non cash items) for the year and higher inventories and accounts receivable. Net operating cash inflow for fiscal year 2010 was primarily the result of net income (adjusted for non cash items) for the year and lower accounts receivable and, inventories partially offset by lower accrued expenses.

Our investing activities resulted in net cash outflows of $306,000 for fiscal year 2011 compared to net cash outflows of $222,000 in fiscal year 2010. Cash used in investing activities for fiscal year 2011 included capitalized software development costs of $218,000 and capital expenditures. Cash used in investing activities during fiscal year 2010 consisted primarily of capitalized software development costs and capital expenditures partially offset by cash acquired in the acquisition of CSPR.

Our financing activities resulted in net cash outflows of $842,000 in fiscal year 2011 compared to net cash outflows of $1,572,000 in fiscal year 2010. Cash used in financing activities during fiscal year 2011 was attributable to payments on the Cortelco Note partially offset by purchases under the Employee Stock Purchase Plan. Cash used in financing activities during fiscal year 2010 was attributable to payments on the Cortelco Note and dividend payments by CSPR partially offset by proceeds from the Employee Stock Purchase Plan and proceeds from the exercise of a stock warrant.

We believe that our available funds will satisfy our projected working capital and capital expenditure requirements for at least the next twelve months. To the extent future revenues are not realized or we grow more rapidly than expected, we may need additional cash to finance our operating activities and capital expenditures. Should we need financing, there can be no assurances that financing will be available to us on economically acceptable terms.

Due to the current state of the credit markets, we are not able to predict with any certainty whether we could obtain debt or equity financing to provide additional sources of liquidity, should the need arise, at favorable rates.

Liquidity

Since inception, the Company has financed its operations through debt financing and proceeds generated from public offerings of its common stock. The proceeds from these transactions have been used primarily to fund research and development costs, and selling, general and administrative expenses.

The Company has incurred substantial net operating losses since inception and negative cash flows from operating activities resulting in an accumulated deficit of $49,769,000. The Company recorded a net loss of

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$1,380,000 in fiscal year 2011. As of July 31, 2011, the Company had $1,542,000 in cash and cash equivalents available to fund operations, of which $6,000 was held in international bank accounts.

The Company is largely dependent on available cash and operating cash flow to finance operations and meet its other capital needs. Cortelco has a line of credit based on an asset formula involving accounts receivable and inventory up to a maximum of $1,000,000, none of which was drawn on as of July 31, 2011. The line of credit is secured by substantially all of Cortelco's assets. The loan's interest rate is floating based on LIBOR and expires December 15, 2011. CSPR has a $500,000 revolving line of credit secured by trade accounts receivable and bears interest at 2% over prime. The line of credit, none of which was drawn on as of July 31, 2011, is subject to certain covenant requirements and expires November 30, 2012. If such sources are not sufficient, alternative funding sources may not be available. The Company believes that cash on hand, short-term marketable securities, and the lines of credit plus the additional liquidity that it expects to generate from operations will be sufficient to cover its working capital and fund expected capital expenditures over at least the next twelve months.

Capital Resources

The Company believes that the cash, short-term marketable securities on hand, lines of credit, plus the additional liquidity that we expect to generate from operations will be sufficient to meet the cash requirements of the business including capital expenditures and working capital needs for at least the next twelve months. Should actual results differ significantly from our current assumptions, our liquidity position could be adversely affected and the Company could be in a position that would require the Company to raise additional capital, which may not be available to the Company or may not be available on acceptable terms.

NET INCOME (LOSS)

Net loss was $1,380,000 in fiscal year 2011 compared to a net income of $467,000 in fiscal year 2010. Reported net loss has been materially impacted by the imputed interest expense due to the amortization of the difference between the face value of the contingent obligation to the former Cortelco shareholders and the discounted present value of the note payable recorded on the balance sheet. The table below presents a non-GAAP financial disclosure to provide a quantitative analysis of the impact of the imputed interest expense on reported net income (loss) and income (loss) per share. Management does not include this expense in its analysis of financial results or how resources are allocated. Because of this, we deemed it meaningful to provide this non-GAAP disclosure of the impact of this significant item on our financial results.

Non-GAAP Financial Disclosure

(In thousands, except per share amounts)

	Year Ended July 31, 2011	Year Ended July 31, 2010
Net income (loss) reported	$ (1,380)	$ 467
Interest imputed	206	674
Net income (loss) less imputed interest	(1,174)	1,141
Loss from discontinued operations	(125)	(133)
Net income (loss) from continuing operations less imputed interest	$ (1,299)	$ 1,008
Net income (loss) per common share as reported		
Continuing operations	(0.44)	0.22
Discontinued operations	(0.04)	(0.05)
Total	$ (0.48)	$ 0.17
Interest imputed per common share	0.07	0.24
Net income (loss) per common share less imputed interest		
Continuing operations	(0.37)	0.46
Discontinued operations	(0.04)	(0.05)
Total	$ (0.41)	$ 0.41
Weighted average common shares outstanding	2,860	2,760

COMMITMENTS AND CONTINGENCIES

Contractual Obligations

The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to non-cancelable operating lease agreements for office and warehouse space and inventory purchase obligations. Expected future minimum contractual cash obligations for the next five years and in the aggregate at July 31, 2011 are as follows (in thousands):

	Payments Due by Period for the Years Ending July 31,						
	Total	2012	2013	2014	2015	2016	Thereafter
Notes payable (1)	$ 8,400	$ 794	$708	$630	$630	$630	$ 5,008
Operating leases (2)	882	103	107	110	116	112	334
Purchase obligations (3)	2,330	2,330	—	—	—	—	—
Total	$11,612	$3,227	$815	$740	$746	$742	$ 5,342

(1) Actual payments under the note payable to Cortelco shareholders (“Cortelco Note”), which are to be based on future earnings of Cortelco, may differ significantly from the projected payments estimated at the Cortelco Note’s inception. These differences may result in significant fluctuations in periodic interest expense in order to properly reflect interest expense over the actual life of the Cortelco Note.

(2) Non-cancelable operating leases do not include payments due under renewals to the original lease term.

(3) Outstanding commitments for purchases of inventory under open purchase orders.

The Company leases approximately 77,236 square feet of office and warehouse space in Corinth, Mississippi. The month-to-month lease has monthly rent of approximately $11,500 and is not subject to a formal lease agreement or term.

CSPR leases approximately 17,236 square feet of office and warehouse space from the Puerto Rico Industrial Development Company. The lease expires in August 2019 and has monthly rent of approximately $8,000.

The Company is involved in various matters of litigation, claims, and assessments arising in the ordinary course of business. In the opinion of management, the eventual disposition of these matters will not have a material adverse effect on the financial statements.

As of the acquisition date, CSPR had a contingent liability associated with a property tax audit. The Municipal Revenue Collection Center of Puerto Rico (“CRIM”) conducted a personal property tax audit for the years 1999 and 2000 which resulted in assessments of approximately $320,000 (approximately $514,000 as of August 30, 2011, including interest and penalties). The assessments arose from CRIM’s disallowances of certain credits for overpayments from 1999 and 2000, claimed in the 2001 through 2003 personal property tax returns. During the audit process, CRIM alleged that some components of the inventory reported as exempt should be taxable. The parties met several times and an informal administrative hearing was held on September 27, 2006. CSPR submitted its position in writing within the time period provided by CRIM. CSPR believes it has strong arguments to support its position that the components of inventory qualify as raw material. However, management believes a settlement may be reached for an amount less than the assessment. Accordingly, the Company has recorded a liability of $80,000 as of July 31, 2011 and 2010.

The Company is a party to various asbestos claims. It is the opinion of management that these claims are without merit and, individually or in the aggregate, will not materially and adversely affect our business or financial condition.

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RECENT ISSUED AND ADOPTED ACCOUNTING STANDARDS

In October 2009, the FASB issued authoritative guidance on revenue recognition that became effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor-specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Company adopted this guidance on August 1, 2010. The adoption of this guidance had no impact on the Company’s consolidated financial statements.

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ITEM 8. FINANCIAL STATEMENTS.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders

eOn Communications Corporation

We have audited the accompanying consolidated balance sheets of eOn Communications Corporation and Subsidiaries (the “Company”) as of July 31, 2011 and 2010, and the related consolidated statements of operations, stockholders’ equity and comprehensive income, and cash flows for the years then ended. These financial statements are the responsibility of the Company’s management. 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 audits 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Eon Communication Corporation and Subsidiaries as of July 31, 2011 and 2010, and the results of their operations and their cash flows for the years then ended, in conformity with U.S generally accepted accounting principles.

/s/ Horne LLP

Ridgeland, Mississippi

October 28, 2011

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EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	As of July 31,	
	2011	2010
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,542	$ 4,108
Trade accounts receivable, net of allowance of $351 and $235, respectively	5,175	4,168
Trade accounts receivable—related party	—	8
Inventories	5,516	4,948
Prepaid and other current assets	205	257
Total current assets	12,438	13,489
Property and equipment, net	223	279
Intangibles, net	—	847
Investments	990	990
Total assets	$ 13,651	$ 15,605
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 2,660	$ 2,361
Current maturities of notes payable—related parties	575	674
Accrued expenses and other	1,699	1,977
Total current liabilities	4,934	5,012
Notes payable—related parties, net of current maturities	3,103	3,647
Total liabilities	8,037	8,659
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, (10,000,000 shares authorized, no shares issued and outstanding)	—	—
Common stock, $0.005 par value (10,000,000 shares authorized, 3,003,985 and 2,989,269 shares issued, respectively)	15	15
Additional paid-in capital	56,281	56,269
Treasury stock, at cost (139,580 shares)	(1,503)	(1,503)
Accumulated deficit	(49,769)	(48,389)
Accumulated other comprehensive income	5	110
Total eOn Communications Corp. stockholders' equity	5,029	6,502
Noncontrolling interest	585	444
Total stockholders' equity	5,614	6,946
Total liabilities and stockholders' equity	$ 13,651	$ 15,605

See accompanying notes to the consolidated financial statements.

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EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)

	For the Years Ended July 31,	
	2011	2010
REVENUE		
Products	$ 18,583	$ 14,883
Services	4,833	1,914
Net revenue	23,416	16,797
COST OF REVENUE		
Products	14,520	10,321
Services	2,589	434
Cost of revenue	17,109	10,755
Gross profit	6,307	6,042
OPERATING EXPENSE		
Selling, general and administrative	5,750	4,491
Research and development	483	461
Asset impairment	916	41
Other	50	68
Total operating expense	7,199	5,061
Income (loss) from operations	(892)	981
OTHER INCOME (EXPENSE)		
Interest expense, net	(219)	(671)
Equity earnings of unconsolidated investee	—	61
Gain on bargain purchase	—	497
Gain on investment	—	15
Total other expense	(219)	(98)
Income (loss) before income taxes and discontinued operations	(1,111)	883
Income tax expense	54	248
Net income (loss) from continuing operations	(1,165)	635
DISCONTINUED OPERATIONS		
Loss from discontinued operations	(125)	(133)
Net income (loss)	(1,290)	502
Less: Net income attributable to the noncontrolling interest	90	35
Net income (loss) attributable to common shareholders	$ (1,380)	$ 467
Weighted average shares outstanding:		
Basic	2,860	2,760
Diluted	2,860	2,762
Basic and diluted income (loss) per share		
Continuing operations	(0.44)	0.22
Discontinued operations	(0.04)	(0.05)
Total	$ (0.48)	$ 0.17

See accompanying notes to the consolidated financial statements.

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EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the Years Ended July 31,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ (1,290)	$ 502
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Stock based compensation expense	45	4
Depreciation and amortization	278	192
Asset impairment	916	41
Gain on recognition of cumulative translation adjustments	(107)	—
Deferred income taxes	—	270
Provision for doubtful trade accounts receivable	184	(4)
Provision for obsolete inventory	762	15
Loss on disposal of fixed assets	15	—
Imputed interest expense on note payable	218	676
Equity in earnings of unconsolidated investee	—	(61)
Gain on investments	—	(17)
Gain on bargain purchase	—	(497)
Changes in net assets and liabilities, net of effects of business acquisition		
Trade accounts receivable	(1,191)	1,057
Inventories	(1,330)	575
Prepaid and other current assets	51	195
Trade accounts payable	299	(21)
Trade accounts receivable/payable—related party	8	206
Accrued expenses and other	(278)	(248)
Net cash (used in) provided by operating activities	(1,420)	2,885
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(88)	(45)
Capitalized software development costs	(218)	(562)
Sale of investments	—	10
Net cash acquired in business acquisition	—	375
Net cash used in investing activities	(306)	(222)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payment of dividend by subsidiary	—	(124)
Repayment of note payable	(861)	(1,425)
Subsidiary purchase of treasury stock	—	(36)
Proceeds from employee stock purchase plan	19	11
Proceeds from stock warrant exercise	—	2
Net cash used in financing activities	(842)	(1,572)
Effect of exchange rate changes on cash	2	7
Net (decrease) increase in cash and cash equivalents	(2,566)	1,098
Cash and cash equivalents, beginning of period	4,108	3,010
Cash and cash equivalents, end of period	$ 1,542	$ 4,108
Non cash financing activity:		
Issuance of subsidiary treasury stock for stock-based compensation	$ 36	$ —
Supplemental cash flow information:		
Interest paid	$ 310	$ 642
Income taxes paid	$ 24	$ —

See accompanying notes to the consolidated financial statements.

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EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITYAND COMPREHENSIVE INCOME
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Noncontrolling Interest	Total Stockholders' Equity
	Shares	Amount		Shares	Amount				
Balance at August 1, 2009	2,873,992	$ 14	$ 56,048	(139,580)	$ (1,503)	$ (48,856)	$ 103	$ —	$ 5,806
Issuance of common stock under employee stock purchase plan	9,318		11						11
Stock based compensation expense, stock options and ESPP			4						4
Issuance of common stock for exercise of stock warrant	15,000	1	1						2
Issuance of common stock for purchase of CSPR stock	90,959		190						190
Noncontrolling interest in acquisition of CSPR								460	460
Subsidiary purchase of treasury stock								(36)	(36)
Change in ownership interest in subsidiary			15					(15)	—
Comprehensive income:									
Foreign currency translation adjustments							7		7
Net income						467		35	502
Comprehensive income									509
Balance at July 31, 2010	2,989,269	15	56,269	(139,580)	(1,503)	(48,389)	110	444	6,946
Issuance of common stock under employee stock purchase plan	14,716		19						19
Stock based compensation expense, stock options and ESPP			8						8
Subsidiary issuance of treasury stock								36	36
Change in ownership interest in subsidiary			(15)					15	—
Comprehensive income:									
Foreign exchange gain on liquidation of foreign subsidiary							(107)		(107)
Foreign currency translation adjustments							2		2
Net loss						(1,380)		90	(1,290)
Comprehensive loss									(1,395)
Balance at July 31, 2011	3,003,985	$ 15	$ 56,281	(139,580)	$ (1,503)	$ (49,769)	$ 5	$ 585	$ 5,614

See accompanying notes to the consolidated financial statements.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Years Ended July 31, 2011 and 2010

1. Description of Business

eOn Communications Corporation™ and subsidiaries ("eOn" or the "Company") is a provider of communications solutions. Backed with over 20 years of telecommunications expertise, the Company's solutions enable customers to use its technologies in order to communicate more effectively. eOn's offerings are built on open architectures that enable adoption of emerging technologies, such as Voice over Internet Protocol (VoIP) and concepts, such as Service Oriented Architectures (SOA). Through its wholly-owned subsidiary, Cortelco Systems Holding Corp. ("Cortelco"), the Company provides commercial grade telephone products primarily for use in businesses, government agencies, colleges and universities, telephone companies, and utilities. Cortelco sells primarily through large national distributors with whom it has long-term relationships. Through its majority-owned subsidiary, Cortelco Systems Puerto Rico ("CSPR"), the Company provides sales and service of integrated communications systems, data equipment, security products, and telephony billing services.

2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of eOn Communications Corporation, eOn Communications (Beijing) Corporation Limited ("eOn China") formed on June 20, 2006, Cortelco acquired on April 1, 2009, and Cortelco Systems Puerto Rico ("CSPR") control of which was acquired on June 9, 2010. All significant inter-company accounts and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

All highly liquid investments with a maturity date of three months or less when purchased are considered to be cash equivalents. At July 31, 2011, there was approximately $6,000 held in foreign bank accounts.

(c) Trade Accounts Receivable

Trade accounts receivable are stated net of allowances for doubtful accounts. The Company typically grants standard credit terms to customers in good credit standing. As a result, the Company must estimate the portion of accounts receivable that are uncollectible and record any necessary valuation reserves. The Company generally reserves for estimated uncollectible accounts on a customer-by-customer basis, which requires judgment about each individual customer's ability and intention to fully pay account balances. The Company makes these judgments based on knowledge of and relationships with customers and current economic trends, and updates estimates on a monthly basis. Any changes in estimate, which can be significant, are included in earnings in the period in which the change in estimate occurs.

(d) Inventories

Inventories consist of phones, systems, system cards and component parts for final assembly of our systems and are valued at the lower of cost or market with cost determined utilizing standard cost which approximates the first-in, first-out ("FIFO") method. The Company performs an analysis of slow-moving or obsolete inventory on a quarterly basis and any changes in valuation reserves, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

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(e) Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes over the estimated useful lives of the assets, generally three to five years. Maintenance and repair costs are charged to expense as incurred.

(f) Intangibles, net

Intangibles represent process technology acquired from Aelix Systems Inc. (Aelix) and software development costs. Aelix was the Company's 100% owned subsidiary, which was closed effective April 1, 2008.

The Company accounts for costs related to software developed for external use in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 985, *Software*. As required by ASC Topic 985, the Company capitalizes costs in developing software products upon determination that technological feasibility has been established for the product, if that product is to be sold, leased or otherwise marketed. Costs incurred prior to the establishment of technological feasibility are charged to research and development expense. When the product or enhancement is available for general release to customers, capitalization is ceased, and previously capitalized costs are amortized based on current and anticipated future revenues for the product, but with an annual amortization amount at least equal to the straight-line amortization over an estimated economic life of five years

In accordance with ASC Topic 360, *Property, Plant, Equipment*, management of the Company evaluates the carrying value of the process technology and software development cost annually or when a possible impairment is indicated. Subsequent to the general release of the eConn IP PBX software to customers in the first fiscal quarter of 2011, the product did not reach the anticipated level of market acceptance. Based on its evaluation, management recorded an impairment charge of approximately $916,000 against the software in the fourth quarter of fiscal 2011.

Changes in the carrying amount of the intangible assets are summarized as follows (in thousands):

	Process Technology	Software Under Development	Intangibles, Net
Balance at August 1, 2009	$ 167	$ 243	$ 410
Amortization	(84)	—	(84)
Impairment	(41)		(41)
Additions	—	562	562
Balance at July 31, 2010	42	805	847
Amortization	(42)	(107)	(149)
Impairment	—	(916)	(916)
Additions	—	218	218
Balance at July 31, 2011	$ —	$ —	$ —

(g) Investments

The equity method of accounting is used when the Company has a 20% to 50% interest in other entities or when we exercise significant influence over the entity. Under the equity method, original investments are recorded at cost and adjusted by the Company's share of undistributed earnings or losses of these entities.

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Investments in which the Company has less than a 20% interest and in which it does not have the ability to exercise significant influence over the investee are initially recorded at cost, and periodically reviewed for impairment.

The Company evaluates its cost method investments for impairment on a quarterly basis in accordance with ASC 325, *Cost Method Investments* ("ASC 325"), which specifically addresses accounting for cost method investments subsequent to initial measurement. An impairment charge is recognized whenever a decline in value of an investment below its carrying amount is determined to be other-than-temporary. In determining if a decline is other-than-temporary, factors such as the length of time and extent to which the fair value of the investment has been less than the carrying amount of the investment, the near-term and longer-term operating and financial prospects of the affiliate and the intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery are considered.

(h) Stock Compensation Plans

The Company accounts for stock-based compensation under ASC Topic 718, *Stock Compensation* ("Topic 718"). Topic 718 requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. Topic 718 also required the benefits of tax deductions in excess of recognized compensation cost to be recorded as financing cash flows.

(i) Product Warranties

The Company generally provides customers a one year product warranty from the date of purchase for the Millennium and eQueue product lines. Warranty for the Cortelco product line ranges from one to five years based upon the product purchased. The Company estimates the costs of satisfying warranty claims based on analysis of past claims experience and provides for these future claims in the period that revenue is recognized. The cost of satisfying warranty claims, which approximates 0.4%—2.1% of product revenues, has historically been comprised of materials and direct labor costs. The Company performs quarterly evaluations of these estimates and any changes in estimates, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

(j) Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets when management is unable to conclude that it is more likely than not that the asset will be realized.

The impact of an uncertain income 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. The Company classifies interest and penalties, if any, as a component of its income tax provision.

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(k) Revenue Recognition

The Company's revenues from its six product lines are the result of separate, individual deliverables:

	Type of Revenues Earned		
Product Line	**Equipment/Software**	**Professional Services**	**Maintenance Contracts**
Millennium PBX System	Individual sale		
eQueue Contact Center System	Individual sale	Individual sale	Individual sale
VOIP Telephones	Individual sale		
Cortelco Products	Individual sale		
CSPR Products	Individual sale	Individual sale	Individual sale
CSPR Telephony Billing		Individual sale	

Because the eQueue system is very flexible in its applications, some customers contract for professional services to tailor their system to specific requirements. Professional services are invoiced separately upon completion.

eQueue customers can also elect to enter into maintenance contracts to receive software updates and free technical support. Revenue is recognized quarterly for each maintenance period as provided.

The VOIP telephones can be deployed with either the Millennium or the eQueue systems to provide lower call costs as well as flexible telecom management across multiple locations. These phones may be sold with a new system, but are often sold subsequent to the system sale.

Cortelco sells corded and cordless analog and digital telephones capable of operating in the multiple PBX, Key System and Centrex environments primarily through stocking distributors.

Telephony billing revenues from the resale of Puerto Rico Telephone services are recognized monthly as services are provided to the customers.

The Company records shipping and handling fees billed to customers as revenue, and shipping and handling costs incurred with the delivery of products as cost of sales.

Revenues from our products are recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectibility is reasonably assured. Generally, revenue is recognized (1) upon shipment for equipment and software, (2) as work is performed for professional services and (3) in equal periodic amounts over the term of the contract for software and hardware maintenance. The Company's revenue recognition policies are in accordance with SEC Staff Accounting Bulletin No. 104, *Revenue Recognition* and ASC Topic 985, *Software*.

(l) Earnings Per Share

Basic EPS is computed by dividing income or loss available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares, such as options, had been issued. During fiscal year ended July 31, 2011, potentially dilutive shares were excluded from the computation of dilutive loss per share because the Company has a net loss from operations for the periods and their effect would have been anti-dilutive.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
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(m) Fair Value of Financial Instruments

Accounting standards define fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities required or permitted to be recorded at fair value, the Company considers the principal or most advantageous market in which the Company would transact, and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of non performance.

Accounting standards have established a fair value hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Accounting standards have established three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets and liabilities.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets with insufficient volume or infrequent transactions (less active markets), or model-derived valuations in which all significant inputs are observable or can be derived principally from or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The carrying amounts of financial instruments such as cash and cash equivalents, accounts receivable, and accounts payable approximate their fair value due to the short-term nature of the instruments.

The following table presents information about the liabilities recorded at fair value at July 31, 2011, in the balance sheets (in thousands):

	Fair Value Measurements at July 31, 2011			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total at July 31, 2011
Notes payable-related parties	$ —	$ —	$ 3,678	$3,678
Total	$ —	$ —	$ 3,678	$3,678

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Years Ended July 31, 2011 and 2010

The following table presents information about the liabilities recorded at fair value at July 31, 2010, in the balance sheets (in thousands):

	Fair Value Measurements at July 31, 2010			
	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total at July 31, 2010
Notes payable-related party	$ —	$ —	$ 4,321	$4,321
Total	$ —	$ —	$ 4,321	$4,321

As of July 31, 2011 the carrying value of the Company's investment in Symbio Investment Corp. ("Symbio") was $990,000. Symbio is a holding company whose primary asset is an approximate twenty percent investment in Symbio SA. The Company believes, based on recent stock issuances by Symbio SA, that the fair value of the Company's investment in Symbio may be less than the Company's cost. There are no quoted market prices for the Company's investment in Symbio, and sufficient information is not readily available for the Company to utilize a valuation model to determine its fair value without incurring excessive costs relative to the materiality of the investment. Accordingly, the Company has not estimated the fair value of its investment in Symbio at July 31, 2011. Based on the Company's evaluation of the near-term prospects of Symbio and the Company's ability and intent to hold the investment for a reasonable period of time sufficient for a forecasted recovery of fair value, the Company does not consider any potential impairment to be other-than-temporary at July 31, 2011.

The notes payable—related parties is primarily due to the note payable to former Cortelco shareholders (See Note 9) which is valued using a discounted cash flow analysis of the projected future payments of Cortelco using a discount rate of 15.22%. The note is classified within Level 3 of the fair value hierarchy. The following represents transactions related to the note payable for the year ended July 31, 2011 and 2010 (in thousands):

	2011	2010
Beginning fair value	$4,159	$ 4,910
Inputed interest	543	619
Change in estimates	(337)	55
Interest expense	206	674
Payments	(861)	(1,425)
Ending fair value—July 31	$3,504	$ 4,159

(n) Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
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(o) Comprehensive Income (Loss)

Comprehensive income consists of net income (loss) and foreign currency translation adjustments. The functional currency of the Company's China operations is the Renminbi Yuan. The financial statements of the operations were translated into United States dollars using year end rates of exchange for the assets and liabilities and average rates of exchange during the year for revenues, costs and expenses. Translation gains and losses were treated as a component of stockholders equity. In conjunction with the discontinued operations in China, the Company reversed approximately $107,000 in accumulated foreign currency translation adjustments in the fiscal year ended July 31, 2011. Foreign currency transaction gains and losses are included in determining net income (loss).

(p) Research and Development Costs

The Company allocates expenses to research and development costs based on headcount that is dedicated to research and development activities.

(q) Advertising Expense

The Company expenses advertising costs as incurred. Advertising expenses for fiscal years 2011 and 2010 were not significant.

(r) Segment Reporting

The Company operates in three business segments: Communications Systems and Services, Telephony Products, and Puerto Rico. Segment information is consistent with how management reviews its businesses, makes investing and resource allocation decisions and assesses operating performance.

(s) Recently Issued Accounting Standards

In October 2009, the FASB issued authoritative guidance on revenue recognition that becomes effective on a prospective basis for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Under the new guidance on arrangements that include software elements, tangible products that have software components that are essential to the functionality of the tangible product will no longer be within the scope of the software revenue recognition guidance, and software-enabled products will now be subject to other relevant revenue recognition guidance. Additionally, the FASB issued authoritative guidance on revenue arrangements with multiple deliverables that are outside the scope of the software revenue recognition guidance. Under the new guidance, when vendor-specific objective evidence or third party evidence for deliverables in an arrangement cannot be determined, a best estimate of the selling price is required to separate deliverables and allocate arrangement consideration using the relative selling price method. The new guidance includes new disclosure requirements on how the application of the relative selling price method affects the timing and amount of revenue recognition. The Company adopted this guidance on August 1, 2010. The adoption of this guidance had no impact on the Company's consolidated financial statements.

(t) Reclassification

Certain amounts in the July 31, 2010 consolidated financial statements have been reclassed to conform to the July 31, 2011 consolidated financial statement presentation.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
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3. Acquisitions

On June 9, 2010, the Company executed a Stock Purchase Agreement to purchase 501,382, or 33% of the outstanding shares of common stock of Cortelco Systems Puerto Rico, Inc. ("CSPR"), from David S. Lee, eOn's Chairman. The acquisition of CSPR stock was completed on June 9, 2010. The consideration for the CSPR shares consists of (i) 90,959 Company shares of stock, issued to Mr. Lee effective June 9, 2010, (ii) a cash payment of $185,511 payable in three annual installments, with the initial installment due on June 9, 2011, (iii) and the right to share in sale proceeds received by the Company if the Company sells the CSPR shares on or before June 9, 2013 for a price that is more than the Company paid for the shares. The number of eOn shares issued to Mr. Lee was calculated based on the average closing price of eOn Shares for thirty (30) trading days ending on June 8, 2010. The Company has the right to require Mr. Lee to repurchase the CSPR shares at the price paid by the Company on or after June 9, 2013, but before June 9, 2014. The purchase, combined with shares already owned by the Company, establishes the Company as the majority shareholder of CSPR.

The fair value of the 90,959 Company shares of stock issued was $190,000 based upon the closing price of the Company's stock on June 8, 2010. The fair value of the cash obligation was $159,000 at the date of the acquisition determined using a discounted cash flow method (Level 3 input) and a discount rate of 7%.

The acquisition was accounted for under the acquisition method in accordance with the guidance provided by ASC Topic 805, *Business Combinations*. Acquisition-related costs of approximately $6,000 are included in the general and administrative expenses in the Company's consolidated statement of operations for the fiscal year ended July 31, 2010.

The guidance on accounting for business combinations requires that an acquirer remeasure its previously held equity interest in an acquiree at its acquisition date fair value and recognize the resulting gain or loss in earnings. Thus, in connection with the acquisition of CSPR stock, the carrying amounts of the Company's previously held equity interest in CSPR was revalued to fair value at the acquisition date, resulting in a gain of approximately $15,000 which is recorded in other income (expense) in the consolidated statements of operations for the year ended July 31, 2010. The total fair value of the noncontrolling interesting in CSPR was $460,000 at the acquisition date. The fair value of the Company's existing ownership interest and the noncontrolling interest was determined using the CSPR stock price from transactions on or around the acquisition date.

The following represents the fair value of identifiable assets acquired and liabilities assumed at the date of the CSPR acquisition (in thousands):

Cash	$ 375
Accounts receivable	2,352
Inventories	70
Projects in process	436
Other current assets	135
Property and equipment	133
Total assets acquired	3,501
Total liabilities assumed	(2,009)
Net assets acquired	1,492
Fair value of existing ownership	(186)
Fair value of noncontrolling interest	(460)
Gain on bargain purchase	(497)
Total purchase price	$ 349

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
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The purchase price allocation resulted in the recognition of a gain on bargain purchase of $497,000, which is recorded in other income (expense) in the consolidated statement of operations for the year ended July 31, 2010. The gain on bargain purchase resulted from the fair value of the identifiable net assets acquired exceeding the value of the purchase consideration. The acquisition resulted in a bargain purchase as CSPR had declining annual revenues at the time of the acquisition thus impacting the fair value of CSPR as of the date of the acquisition.

Subsequent to the acquisition in fiscal 2010, CSPR reacquired a percentage of its own shares causing the Company's ownership interest to increase. Accounting guidance requires changes in the ownership interest while the Company retains its controlling financial interest in the subsidiary to be treated as equity transactions. As a result, the Company recorded a reduction to noncontrolling interest and an increase to additional paid-in capital in the amount of $15,000 for the period ended July 31, 2010. In fiscal 2011, the reacquired shares were issued to employees as supplemental compensation. Therefore, the Company recorded a $15,000 increase in noncontrolling interest and a decrease to additional paid in capital for the period ended July 31, 2011.

As of the acquisition date, CSPR had a contingent liability associated with a property tax audit. The Municipal Revenue Collection Center of Puerto Rico ("CRIM") conducted a personal property tax audit for the years 1999 and 2000 which resulted in assessments of approximately $320,000 (approximately $514,000 as of August 31, 2011, including interest and penalties). The assessments arose from CRIM's disallowances of certain credits for overpayments from 1999 and 2000, claimed in the 2001 through 2003 personal property tax returns. During the audit process, CRIM alleged that some components of the inventory reported as exempt should be taxable. The parties met several times and an informal administrative hearing was held on September 27, 2006. CSPR submitted its position in writing within the time period provided by CRIM. CSPR believes it has strong arguments to support its position that the components of inventory qualify as raw material. However, management believes a settlement may be reached for an amount less than the assessment. Accordingly, the Company has recorded a liability of $80,000 as of July 31, 2011 and 2010.

The following unaudited pro forma financial information gives effect to the acquisition as if it had been consummated at the beginning of the period presented. This information is not necessarily indicative of the operational results that would have occurred if the acquisition had been consummated on the date indicated nor is it necessarily indicative of the future consolidated results of operations or financial condition.

	Year Ended July 31, 2010
Revenue	$ 23,726
Net income	161
Net income attributable to noncontrolling shareholders	117
Net income attributable to eOn shareholders	$ 44
Proforma income per share:	
Basic	$ 0.02
Diluted	$ 0.02

4. Concentrations of Credit Risk, Major Customers, Major Suppliers and Geographic Information

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist principally of cash and trade accounts receivable. The Company maintains its cash balances with large regional U.S. and foreign financial institutions and has not experienced losses. The Company's products are sold principally to dealers, distributors, value added resellers, national accounts, the U.S. government and foreign

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
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telecommunications companies. The Company's credit risk is limited principally to trade accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. No additional risk beyond amounts provided for collection losses is believed inherent in the Company's trade accounts receivable.

During fiscal years 2011 and 2010, the Company recognized revenue from the United States federal government of $735,000, or 3% of total revenue and $1,366,000, or 8% of total revenue, respectively. Revenue from four major distributors of Cortelco was $9,285,000 or 40% of revenue during fiscal year 2011 and $8,801,000 or 51% of revenue for the fiscal year ended July 31, 2010. Revenue from one of these distributors was $3,950,000 or 17% of total revenue for the year ended July 31, 2011 and $4,294,000 or 25% of total revenue for the year ended July 31, 2010. As of July 31, 2011 and 2010, the Company had receivables from the federal government of $35,000 and $193,000, respectively. As of July 31, 2011 and 2010, the Company had receivables from four major distributors of $2,110,000 and $1,526,000, respectively. Two of these distributors accounted for 27% and 23% of trade accounts receivable at July 31, 2011 and 2010, respectively.

The Company purchases approximately 55% of its Cortelco phones from two major suppliers. A change in suppliers could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results. During fiscal year 2011 and 2010, purchases from these two suppliers totaled approximately $5,272,000 and $4,392,000, respectively. As of July 31, 2011 and 2010, the balances payable to these two suppliers were $1,364,000 and $762,000, respectively.

5. Inventories

Inventories consist of the following as of July 31, 2011 and 2010 (in thousands):

	2011	2010
Raw materials and purchased components	$ 1,612	$ 1,465
Finished goods	6,088	5,256
Total	7,700	6,721
Inventory obsolescence reserve	(2,184)	(1,773)
Total inventories	$ 5,516	$ 4,948

6. Prepaid and Other Current Assets

Prepaid and other current assets consist of the following as of July 31, 2011 and 2010 (in thousands):

	2011	2010
Refundable facility deposits	$ 16	$ 19
Prepaid expenses	187	238
Other	2	—
Total	$205	$257

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7. Property and Equipment

Property and equipment consist of the following as of July 31, 2011 and 2010 (in thousands):

	2011	2010
Leasehold improvements	$ 65	$ 369
Equipment	816	1,895
Furniture and fixtures	151	352
Total	1,032	2,616
Less: accumulated depreciation	(809)	(2,337)
Property and equipment, net	$ 223	$ 279

8. Accrued Expenses and Other

Accrued expenses and other consist of the following as of July 31, 2011 and 2010 (in thousands):

	2011	2010
Employee compensation	$ 212	$ 269
Vacation	71	105
Deferred income	374	338
Warranty reserve	185	223
Professional fees	150	148
Other	707	894
Total	$1,699	$1,977

The following table summarizes the activity related to the product warranty liability during fiscal years 2011 and 2010 (in thousands):

	2011	2010
Balance at beginning of period	$ 223	$ 196
Warranty accrual acquired from CSPR	—	51
Accruals for warranty liability	145	107
Warranty charges	(183)	(131)
Balance at end of period	$ 185	$ 223

9. Notes Payable and Lines of Credit

On June 20, 2008, eOn China issued a note to Hangzhou Nature Opto Company in exchange for RMB 945,000, or approximately $138,000. The note payable was cancelled in fiscal year 2010 in exchange for the Company's interest in Symbio-ES Park Business Outsourcing Joint Venture. (See Note 12.)

Cortelco has a line of credit with available borrowings based on an asset formula involving accounts receivable and inventories up to a maximum of $1,000,000, none of which was drawn on as of July 31, 2011. The line of credit is secured by substantially all of Cortelco's assets. The loan's interest rate, with a floor of 4%, is floating based on LIBOR and expires December 15, 2011.

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CSPR has a $500,000 revolving line of credit, none of which was drawn on as of July 31, 2011, secured by trade accounts receivable and bears interest at 2% over Citibank's base rate. The agreement has certain covenant requirements and expires November 30, 2012.

Included in notes payable—related parties is the note payable to Cortelco's former shareholders (the "Cortelco Note") for the acquisition of Cortelco on April 1, 2009. The Cortelco Note balance totaled $3,504,000 at July 31, 2011 and $4,159,000 at July 31, 2010. The fair value of the Cortelco Note was approximately $4,430,000 at the April 1, 2009 Cortelco acquisition date using a discounted cash flow analysis of the projected future payments and a discount rate of 15.22%.

Actual payments under the Cortelco Note, which are to be based on future earnings of Cortelco, may differ significantly from the projected payments estimated at the Cortelco Note's inception. These differences may result in significant fluctuations in periodic interest expense in order to properly reflect interest expense over the actual life of the Cortelco Note.

On June 9, 2010 pursuant to a Stock Purchase Agreement, the Company recorded a note payable to David S. Lee, eOn's Chairman, for the principal amount of $185,511 payable in three annual installments beginning June 9, 2011. Mr. Lee requested deferral of the payment due on June 9, 2011; therefore, the first and second installments are included in short-term notes payable. The present value of the note payable at July 31, 2011 is approximately $174,000.

The following table represents the present value of projected payouts for notes payable based on current assumptions (in thousands):

Fiscal year ending July 31,	
2012	$ 574
2013	591
2014	443
2015	381
2016	328
Thereafter	1,361
	$3,678

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10. Income Taxes

Income tax expense (benefit) consisted of the following (in thousands):

	Fiscal year ended	
	July 31, 2011	July 31, 2010
Current		
Federal	$ —	$ (20)
State	54	(2)
	54	(22)
Deferred		
Federal	—	228
State	—	42
	—	270
	$ 54	$ 248

No provision has been made for income taxes which may become payable upon distribution of foreign subsidiary's earnings since management considers essentially all of these earnings to be permanently invested. Determination of the net amount of unrecognized U.S. income tax with respect to these earnings is not practicable.

A reconciliation between the income tax expense recognized in the Company's consolidated statements of operations and the income tax expense (benefit) computed by applying the domestic federal statutory income tax rate to income (loss) before income taxes for fiscal years 2011 and 2010 is as follows (in thousands):

	2011	2010
Income tax expense (benefit) at federal statutory rate (35%)	$(470)	$263
State income taxes	35	26
Change in valuation allowance	457	(93)
Other, net	32	52
Total income tax expense	$ 54	$248

The deferred tax effects of the Company's principal temporary differences at July 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Allowance for doubtful receivables	$ 192	$ 124
Inventories	898	691
Basis difference in property and equipment	(6)	(31)
Intangible assets	—	(346)
Accrued warranty costs	47	134
Accrued expenses and other	87	176
Deferred revenue	(75)	(64)
Net operating loss carry-forwards	10,084	10,086
Valuation allowance	(11,227)	(10,770)
Total deferred tax asset	$ —	$ —

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

Due to uncertainties surrounding the timing of realizing the benefits of its net favorable tax attributes in future tax returns; to the extent that it is more likely than not that the deferred tax assets may not be realized, the Company has recorded a valuation allowance against its deferred tax assets at July 31, 2011 and 2010.

At July 31, 2011, the Company has federal and state net operating loss carry-forwards of approximately $25,500,000 which expire on various dates through 2029. As a Puerto Rico corporation not doing business in the United States, CSPR is subject to Puerto Rico income taxes but is exempt from U.S. federal income taxes. CSPR has net operating loss carry-forwards totaling $1,409,000 available to offset future taxable income of CSPR expiring at various dates through 2019.

Tax periods for all years after fiscal 2007 remain open to examination by the federal and state taxing jurisdictions to which the Company is subject.

11. Stock-Based Compensation

The Company's Equity Incentive Plans, adopted in fiscal years 1997, 1999 and 2001, authorize the granting of incentive stock options, supplemental stock options, stock bonuses, and restricted stock purchase agreements to officers, directors, and employees of the Company and to non-employee consultants. Incentive stock options are granted only to employees and are issued at prices not less than the fair market value of the stock at the date of grant. The options generally vest over a four-year period and the term of any option cannot be greater than ten years from the date of grant. Stock bonuses and restricted stock purchase agreements are issued at prices not less than 85% of the fair market value of the stock at the date of grant.

Equity Incentive Plans

No grants were made under the 1997 Equity Incentive Plan during fiscal years 2011 and 2010. The Board of Directors has declared that no future grants will be made under this plan.

During fiscal year 1999, the Board of Directors authorized up to an aggregate of 400,000 shares of the Company's common stock for issuance under the 1999 Equity Incentive Plan. No grants were made under the 1999 Equity Incentive Plan during fiscal years 2011 and 2010.

During fiscal year 2001, the Board of Directors authorized up to an aggregate of 100,000 shares of the Company's common stock for issuance under the 2001 Equity Incentive Plan. Grants to officers or directors are prohibited under the terms of this plan. No options were issued under this plan during fiscal years 2011 and 2010,

Employee Stock Purchase Plan

During 1999, the board of directors adopted an Employee Stock Purchase Plan, which permits employees to purchase up to 50,000 shares of the Company's common stock. The plan was amended in 2005 to increase the number of shares available under the plan to 200,000. The purchase price under this plan is 85% of the fair market value of the common stock at the beginning of an offering period or on a purchase date, whichever is less. Offering periods generally last one year with purchase dates six and twelve months from the beginning of an offering period. During fiscal years 2011 and 2010, employees purchased 14,716 and 9,318 shares of common stock, respectively, under this plan. In September 2011, employees purchased 6,000 shares under this plan.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

Stock Compensation

Stock-based compensation is calculated on the date of grant using the fair value of the option as determined using the Black-Scholes option pricing model. The compensation cost is then amortized on a straight-line basis over the vesting period. The Black-Scholes valuation calculation requires the Company to estimate key assumptions such as expected term, volatility and forfeiture rates to determine the stock options fair value. The estimate of these key assumptions is based on historical information and judgment regarding market factors and trends.

Expected volatilities are based on historical daily closing prices adjusted for expected future volatility. The Company believes that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. The Company uses historical information to calculate expected life of option grants. The Company believes that historical information is currently reflective of the economic life of outstanding option grants. The dividend yield is determined by dividing the expected per share dividend during the coming year by the average fair market value of the stock during the quarter. The Company has not historically declared any cash dividends on its common stock, and currently intends to retain any retained earnings to finance the operation and expansion of the business and therefore does not expect to pay cash dividends on the common stock in the foreseeable future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

Total stock-based compensation recognized for the year ended July 31, 2011 and 2010, related to stock options vested, stock grants and ESPP shares issued during the year totaled $8,000 and $4,000, respectively. CSPR recorded approximately $36,000 in compensation expense related to treasury stock issued to employees.

As of July 31, 2011, the Company has no unrecognized compensation costs related to unvested stock options outstanding under the Plans.

Activity in the Company's stock option plans during fiscal years 2011 and 2010 is as follows:

	2011		
	Shares Available for Grant	Shares Outstanding	Weighted Average Exercise Price
Beginning of year	245,253	131,024	$ 9.43
Granted	—	—	—
Exercised	—	—	—
Cancelled	57,503	(57,503)	7.46
End of year	302,756	73,521	$ 10.80

	2010		
	Shares Available for Grant	Shares Outstanding	Weighted Average Exercise Price
Beginning of year	202,914	173,363	$ 12.46
Granted	—	—	—
Exercised	—	—	—
Cancelled	42,339	(42,339)	22.14
End of year	245,253	131,024	$ 9.43

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

Information regarding the stock options outstanding under the Company's stock option plans at July 31, 2011 is summarized as follows:

Range of Exercise Prices	Outstanding at July 31, 2011	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at July 31, 2011	Weighted Average Exercise Price
$ 0.00 – $5.00	7,388	1.1 years	$ 3.70	7,388	$ 3.70
$ 5.01 – $10.00	34,800	4.5 years	7.45	34,800	7.45
$10.01 – $15.00	1,000	.5 years	11.90	1,000	11.90
$15.01 – $20.00	30,333	2.6 years	16.35	30,333	16.35
	73,521	3.3 years	$ 10.80	73,521	$ 10.80

Activity in the Company's nonvested options during fiscal year 2011 is as follows:

	Nonvested Shares	Weighted Average Exercise Price
Beginning Balance	1,407	$ 0.54
Options granted	—	—
Options vested	(209)	—
Options cancelled	(1,198)	0.54
Ending Balance	—	$ —

The aggregate intrinsic value of both options outstanding and options exercisable as of July 31, 2011 was approximately $0. The aggregate intrinsic value of the 209 options which vested during the year ended July 31, 2011 was approximately $1,000.

12. Related Parties

Cortelco Systems Puerto Rico

Cortelco Systems Puerto Rico ("CSPR") was a wholly-owned subsidiary of the Company until July 31, 2002, when it was spun off to the shareholders of eOn. Since the spin-off, the Company has not had significant trade activity with CSPR.

The Company acquired 300,100 shares (or 18.89%) of CSPR stock as the result of the acquisition of Cortelco on April 1, 2009. These shares were valued at approximately $111,000 at April 1, 2009 based on the quoted market price of CSPR's shares at that date. Because David Lee, Chairman of eOn, was a significant shareholder of CSPR, eOn accounted for this investment using the equity method of accounting, and eOn's proportionate share of CSPR's earnings or losses, are included in the consolidated statements of operations. The Company's proportionate share of CSPR's net income was approximately $61,000 for the period from August 1, 2009 through June 9, 2010, the effective date of the Company establishing a majority ownership in CSPR with the purchase of Mr. Lee's CSPR shares.

On June 9, 2010, the Company executed a Stock Purchase Agreement to purchase 501,382 shares of common stock of Cortelco Systems Puerto Rico, Inc. ("CSPR") from David S. Lee, eOn's Chairman. The purchase of CSPR stock was completed on June 9, 2010 and combined with the shares already owned by the Company, establishes eOn Communications as the majority shareholder of Cortelco Systems Puerto Rico.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

Summarized financial information of CSPR for the referenced period is as follows (in thousands):

	June 9, 2010
Assets:	
Current assets	$ 3,368
Property and equipment	133
Other noncurrent assets	—
Total assets	$ 3,501
Liabilities and stockholders' equity:	
Current liabilities	$ 2,009
Total liabilities	2,009
Stockholders' equity	1,492
Total liabilities and stockholders' equity	$ 3,501

	Period from August 1, 2009 through June 9, 2010
Revenues	$ 7,224
Cost of revenues	(5,700)
Gross profit	1,524
Expenses	(1,261)
Net income (loss) before taxes	$ 263

The following represent related party transactions for the period from August 1, 2009 until June 9, 2010 (in thousands):

	2010
Receivable from CSPR	
Balance at beginning of period	$ 1
Purchases by CSPR	21
Payments from CSPR	(17)
Balance at end of period	$ 5

Spark Technologies, Inc.

Spark Technologies, Inc ("Spark"), a California company that is majority owned by David Lee, the Chairman and major shareholder of eOn. Spark charged the Company for facility and related expenses for a shared facility in San Jose, CA. The following represents related party transactions for each of the fiscal years ended July 31 (in thousands):

	2011	2010
Payable to Spark		
Balance at beginning of period	$—	$—
Operating costs billed to eOn	13	55
Payments to Spark	(13)	(55)
Balance at end of period	$—	$—

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Symbio Investment Corp.

On August 1, 2007 and August 27, 2007, the Company made strategic investments in Symbio of $500,000 and $400,000 for 250,000 and 200,000 shares, respectively, or approximately 3% of Symbio. Symbio is a China-based provider of software development, testing, and globalization outsourcing services to multinational companies. Symbio is a privately held entity and the Company accounts for its investment by the cost method.

At the time of the second investment in Symbio for $400,000, the Company received a put option from David Lee, effective beginning January 1, 2008 and expiring January 1, 2011. In December 2010, the expiration of the put option was extended to January 1, 2013. The put option allows the Company to sell to David Lee a maximum aggregate of 200,000 shares of its investment in Symbio for a per share price of $2.00.

In consideration of the put option, in the event that the 200,000 shares are sold without exercise of the put option before January 1, 2013, the Company has agreed to pay David Lee 50% of the proceeds in excess of $1,000,000.

In conjunction with the purchase of these shares, David Lee was appointed to the board of directors of Symbio and has been elected chairman. eOn has been granted 45,000 shares of Symbio as compensation for Mr. Lee's services. These shares have been valued at $90,000, and have been recorded as an increase in investments and a capital contribution by David Lee.

In September 2009, Symbio announced a definitive agreement to merge with Flander, a leading mobile and embedded software development company, and Ardites, a leading expert in user experience technologies. The merger was completed in the fourth calendar quarter of 2009 and the merged companies were renamed Symbio SA.

Symbio currently shares office space and personnel with the Company in Cupertino, CA. Symbio contracted to assist eOn in the United States with software development in the fiscal year ended July 31, 2010. The following represent related party transactions for each of the fiscal years ended July 31 (in thousands):

	2011	2010
Receivable from Symbio		
Balance at beginning of period	$ 8	$ 9
Billings and accruals for operating expenses	—	106
Payments received from Symbio	(8)	(107)
Balance at end of period	$—	$ 8

	2011	2010
Payable to Symbio		
Balance at beginning of period	$—	$ 11
Billings and accruals for engineering services	—	22
Payments to Symbio	—	(33)
Balance at end of period	$—	$ —

Symbio-ES Park Business Processing Outsourcing Joint Venture

On August 12, 2008, Hangzhou East Software Park ("Hangzhou"), Symbio and eOn formed Symbio-ESPark Business Processing Outsourcing Joint Venture (the "Joint Venture") located in Hangzhou, China.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

On September 9, 2008, eOn invested RMB 900,000 (approximately $136,000) into the Joint Venture for a 9% ownership interest in the Joint Venture. On June 20, 2008, the Company received approximately $138,000 from an entity related to Hangzhou and executed a promissory note due January 19, 2009 (Note 9). The note payable was cancelled in fiscal 2010 in exchange for the Company's ownership in the Joint Venture.

The Company has not had significant trade activity with the Joint Venture in the current fiscal year. The following represents related party transactions for the fiscal year ended July 31, 2010 (in thousands):

Receivable from Hangzhou	
Balance at beginning of period	$ 154
Payments received from Hangzhou	(154)
Balance at end of period	$ —

Joint Venture

On October 24, 2008, eOn China invested RMB 400,000 (approximately $58,000) into a joint venture in TaiCang, China**.** eOn China borrowed RMB 300,000 from an unrelated third party in TaiCang and RMB 100,000 from an employee to make this investment. These borrowings were unsecured and interest free. In November 2008, David Lee purchased this investment from eOn China for $58,000 and took personal ownership of the investment. The proceeds from David Lee were used to repay these borrowings in November 2008. The Company has had no related party activity with the Joint Venture in the year ended July 31, 2011. The following represents related party transactions for the fiscal year ended July 31, 2010 (in thousands):

Balance at beginning of period	$ 64
Billings for product and services	27
Payments received from TaiCang	(91)
Balance at end of period	$—

13. Discontinued Operations

The Company has evaluated its wholly-owned subsidiary in China and determined that the operation has not provided a strategic benefit to the Company. The Company charged off inventories of approximately $134,000 and discontinued the China operations in the second fiscal quarter of 2011. In conjunction with exit of operations in China, the Company reversed approximately $107,000 of accumulated foreign currency translation adjustments related to the China operation in the fiscal year ended July 31, 2011. Consequently, current and prior period financial activity and balances are reported as discontinued operations.

EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

Summarized financial information for discontinued operations for the referenced periods is as follows (in thousands):

	July 31, 2011	July 31, 2010
Cash	$ —	$ 182
Accounts receivable	—	12
Accounts receivable—related party	—	8
Inventories	—	135
Total current assets	—	337
Property and equipment, net	—	16
Total assets	$ —	$ 353
Accrued expenses and other	18	201
Total liabilities	$ 18	$ 201
Net assets (liabilities)—discontinued operations	$ (18)	$ 152

	For the Years Ended July 31,	
	2011	2010
Revenue	$ 34	$ 297
Cost of revenue	145	153
Gross profit (loss)	(111)	144
Operating expenses	107	293
Other income	14	(16)
Total expense	121	277
Foreign currency translation adjustment	107	—
Net (loss)	$ (125)	$ (133)

14. Employee Savings Plan

Substantially all U.S. employees of the Company can participate in the Section 401(k) Safe Harbor Profit Sharing Plan and Trust (the "Plan"), a tax-qualified retirement plan. Under the provisions of the Plan, participants may contribute a percentage of their compensation, subject to limitations established by the Internal Revenue Service. The Company contributes 3% of employee compensation to the Plan. Discretionary contributions may be made to the profit sharing portion of the Plan in an amount specified by management annually. The Company maintained the eOn Communications Corporation Profit Sharing Savings Plan, which qualified under Section 401 of the Internal Revenue Code until January 31, 2011, when the assets were merged with the Plan. Company contributions made under both plans during fiscal 2011 and 2010 were $66,000 and $75,000, respectively.

CSPR provides its employees a savings plan. Under the terms of the savings plan, employees may contribute from 1% to 10% of pretax annual compensation not to exceed $9,000. No employer contributions are made to the savings plan.

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15. Commitments and Contingencies

(a) Operating Leases

The Company is obligated under non-cancelable operating lease agreements for its warehouse, office facilities and certain office equipment. Future minimum annual lease payments at July 31, 2011 under non-cancelable operating lease agreements with remaining terms greater than one year are as follows (dollars in thousands):

	Amount
2012	$ 103
2013	107
2014	110
2015	116
2016	112
Thereafter	334
Total	$ 882

Rent expense for operating leases for the years ended July 31, 2011 and 2010 totaled $278,000 and $254,000, respectively.

On August 10, 2009, the Company's lease for 11,321 sq. ft. of office and warehouse space in Kennesaw, Georgia was cancelled and the Company entered into a new sublease for approximately 2,002 sq. ft. The Company vacated the facility in December 2010.

The Company currently shares office space and personnel with Symbio in Cupertino, California. The Company is not accessed facility rent in exchange for utilization of shared employees.

The Company leases approximately 77,000 sq. ft. of office and warehouse space in Corinth, Mississippi. The lease has monthly rent of approximately $12,000 and expired in December 2010. The Company now leases the property on a month-to-month basis.

The Company leases approximately 17,236 sq. ft. of office and warehouse space in Caguas, Puerto Rico from the Puerto Rico Industrial Development Company, under an amended lease agreement that expires in August 2019.

(b) Litigation

The Company is involved in various matters of litigation, claims, and assessments arising in the ordinary course of business. In the opinion of management, the eventual disposition of these matters will not have a material adverse effect on the financial statements.

The Municipal Revenue Collection Center of Puerto Rico ("CRIM") conducted a personal property tax audit for the years 1999 and 2000 which resulted in assessments of approximately $320,000 (approximately $514,000 as of August 31, 2011, including interest and penalties). The assessments arose from CRIM's disallowances of certain credits for overpayments from 1999 and 2000, claimed in the 2001 through 2003 personal property tax returns. During the audit process, CRIM alleged that some components of the inventory reported as exempt should be taxable. The parties met several times and an informal administrative hearing was held on

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EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
Years Ended July 31, 2011 and 2010

September 27, 2006. CSPR submitted its position in writing within the time period provided by CRIM. CSPR believes it has strong arguments to support its position that the components of inventory qualify as raw material. However, management believes a settlement may be reached for an amount less than the assessment. Accordingly, the Company has recorded a liability of $80,000 as of July 31, 2011 and 2010.

16. Segments

The Company's reportable segments are Communications Systems and Services, Telephony Products and Puerto Rico, each of which offers different products and services or services a different geographic area. The Communications Systems and Services segment develops and markets products that help businesses communicate more effectively and efficiently with their customers. The Telephony Products segment provides telephone products, service and support to businesses and organizations. The Puerto Rico segment provides the sale and service of integrated communications systems, data equipment, security products and telephony billing services to Puerto Rico and the Virgin Islands. Performance of each segment is assessed independently. Prior to the acquisition of Cortelco Systems Puerto Rico on June 9, 2010, the Company reported all of its operations as two segments. Segment reporting for activity for the fiscal year ended and balances as of July 31, 2011 follows (in thousands):

	Communications Systems and Services	Telephony Products	Puerto Rico	Total
Revenue	$ 2,384	$ 12,008	$ 9,024	$23,416
Income (loss) from operations	(2,388)	1,299	197	(892)
Loss from discontinued operations	(125)	—	—	(125)
Total assets	2,777	7,476	3,398	13,651
Capital expenditures	4	6	78	88
Allowance for doubtful accounts	287	15	49	351
Depreciation and amortization	161	55	62	278
Asset impairment	916	—	—	916
Income tax expense	—	54	—	54

Segment reporting for activity for the fiscal year ended and balances as of July 31, 2010 follows (in thousands):

	Communications Systems and Services	Telephony Products	Puerto Rico	Total
Revenue	$ 3,435	$ 12,126	$ 1,236	$16,797
Income (loss) from operations	(440)	1,349	72	981
Loss from discontinued operations	(133)	—	—	(133)
Total assets	6,038	6,120	3,447	15,605
Capital expenditures	15	5	25	45
Allowance for doubtful accounts	219	16	—	235
Depreciation and amortization	121	63	8	192
Asset impairment	41	—	—	41
Income tax expense	—	248	—	248

Substantially all of the Company's revenues are earned in the United States and the Commonwealth of Puerto Rico. Revenue from discontinued operations earned in the People's Republic of China ("PRC") for the fiscal year ended July 31, 2011 was approximately $34,000. During the fiscal year ended July 31, 2010, revenue from discontinued operations in the PRC was approximately $297,000.

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17. Significant Fourth Quarter Adjustments

During the fourth quarter of fiscal year ended July 31, 2011, the Company recorded infrequently occurring adjustments to increase the inventory obsolescence reserve and recognize an impairment charge against software development costs totaling $549,000 and $916,000, respectively. The impairment charge is a result of the eConn IP PBX software product not reaching the anticipated level of market acceptance. In addition, the Company identified excess and obsolete inventories resulting in the increase to the inventory obsolescence reserve.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES.

Disclosure Controls and Procedures.

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

Internal Control Over Financial Reporting.

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting.

Management of the Company is responsible for establishing and maintaining adequate control over financial reporting. 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 the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under Securities Exchange Act of 1934, as amended (the Exchange Act).

As of July 31, 2011, management assessed the effectiveness of the Company's internal control over financial reporting based on criteria for effective internal control over financial reporting established in *Internal Control—Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of July 31, 2011 is effective.

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 Section 404(c) of the Sarbanes-Oxley Act of 2002, as amended by Section 989G(a) of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

ITEM 9B. OTHER INFORMATION.

There were no events that occurred in the fourth quarter that were not previously disclosed in a form 8-K.

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PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 10(a) OF THE EXCHANGE ACT.

Information set forth under the captions "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement ("Proxy Statement"), which will be filed with the Securities and Exchange Commission not later than 120 days after July 31, 2011, are incorporated herein by reference in response to this item.

Information with respect to executive officers is set forth under the caption "Executive Officers" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION.

Information set forth under the caption "Executive Compensation" in the Proxy Statement is incorporated herein by reference in response to this item.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information set forth under the caption "Stock Ownership" in the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

Information set forth under the caption "Certain Transaction" in the Proxy Statement is incorporated herein by reference in response to this item.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

Audit Fees

Information set forth under the caption "Fees Paid to Principal Accountant" in the Proxy Statement is incorporated by reference in response to this item.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.

(A) (1) Financial Statements

The following information appears in Item 8 of Part II of this Report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of July 31, 2011 and 2010
- Consolidated Statements of Operations for the Years Ended July 31, 2011 and 2010
- Consolidated Statements of Cash Flows for the Years Ended July 31, 2011 and 2010
- Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended July 31, 2011 and 2010
- Notes to Consolidated Financial Statements

(B) Exhibits

The exhibits listed in the Exhibit Index following the signature page of this report are filed as part of this report or are incorporated by reference herein.

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SIGNATURES

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.

EON COMMUNICATIONS CORPORATION

Date: October 28, 2011

By /s/ LEE M. BOWLING
Lee M. Bowling,
Chief Financial Officer
(Principal Financial 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 dates indicated.

Name	Title	Date
/s/ JAMES W. HOPPER **James W. Hopper**	Chief Executive Officer, Director (Principal Executive Officer)	October 28, 2011
/s/ LEE M. BOWLING **Lee M. Bowling**	Chief Financial Officer (Principal Financial Officer)	October 28, 2011
/s/ ROBERT A. GORDON **Robert A. Gordon**	Director	October 28, 2011
/s/ W. FRANK KING **W. Frank King**	Director	October 28, 2011
/s/ FREDERICK W. GIBBS **Frederick W. Gibbs**	Director	October 28, 2011
/s/ DAVID S. LEE **David S. Lee**	Chairman of the Board, Director	October 28, 2011

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EXHIBIT INDEX

Documents listed below are being filed as exhibits herewith. Exhibits identified by asterisks (*) are being incorporated herein by reference and, pursuant to Rule 12b-32 of the General Rules and Regulations promulgated by the Commission under the Securities Exchange Act of 1934, reference is made to such documents as previously filed exhibits with the Commission.

Exhibit Number	Description of Document
2.1	Agreement and Plan of Merger to Acquire Cortelco Systems Holding Corp., incorporated herein by reference to eOn's Form 8-K dated December 12, 2008
2.2	Stock Purchase Agreement dated June 9, 2010 between eOn Communications Corporation and David S. Lee, incorporated herein by reference to eOn's Form 8-K dated June 9, 2010
3.1	Amended and Restated Certificate of Incorporation of eOn as filed with the Secretary of State of Delaware on November 16, 1999, incorporated herein by reference to eOn's Registration Statement on Form S-1 (No. 333-77021), filed with the SEC on April 26, 1999
3.2	Amendment to Certificate of Incorporation of eOn, incorporated herein by reference to eOn's Registration Statement on Form S-1/A (No. 333-77021), filed with the SEC on November 23, 1999
3.3	Amendment to Certificate of Incorporation of eOn, incorporated herein by reference to eOn's Form 8-K dated April 18, 2008
3.3	Amended and Restated Bylaws of eOn, incorporated herein by reference to eOn's Form 8-K dated December 11, 2007
4.1	Reference is made to Exhibits 3.1, 3.2, and 3.3
10.1	Form of Indemnity Agreement between eOn and its officers and directors incorporated herein by reference to eOn's Registration Statement on Form S-1 (No. 333-77021), filed with the SEC on April 26, 1999
14.1	Code of Ethics, incorporated herein by reference to Exhibit 14.1 of eOn's Form 10-K/A filed July 19, 2005
21.1	Subsidiaries of eOn Communications Corporation
23.1	Consent of Horne, LLP
31.1	Rule 13a-14(a)/15d-14(a) Certifications
32.1	Section 1350 Certifications

Exhibit 21.1

Subsidiaries of eOn Communications Corporation

eOn Communications (Beijing) Corporation Limited

Cortelco Systems Holding Corp.

Cortelco, Inc.

Cortelco Puerto Rico

Cortelco Systems Puerto Rico (majority-owned)

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-36460) of eOn Communications Corporation and Subsidiaries of our report dated October 28, 2011 relating to our audit of the consolidated financial statements, which appears in this annual report on Form 10-K.

/s/ Horne LLP

Ridgeland, Mississippi
October 28, 2011

Exhibit 31.1

CERTIFICATIONS OF PERIODIC REPORT
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, James W. Hopper, certify that:

1. I have reviewed this annual report on Form 10-K of eOn Communications Corporation (“Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: October 28, 2011

/S/ JAMES W. HOPPER

James W. Hopper
Chief Executive Officer

CERTIFICATIONS OF PERIODIC REPORT
PURSUANT TO SECTION 302 OF SARBANES-OXLEY ACT OF 2002

I, Lee M. Bowling, certify that:

1. I have reviewed this annual report on Form 10-K of eOn Communications Corporation (“Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: October 28, 2011

/S/ LEE M. BOWLING
Lee M. Bowling
Chief Financial Officer

Exhibit 32.1

CERTIFICATIONS
PURSUANT TO 18 U.S.C. 1350
(SECTION 302 OF SARBANES-OXLEY ACT OF 2002)

In connection with this annual report on Form 10-K of eOn Communications Corporation ("Registrant") I, James W. Hopper, Chief Executive Officer of Registrant , certify, pursuant to 18 U.S.C §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: October 28, 2011

/S/ JAMES W. HOPPER
James W. Hopper
Chief Executive Officer

In connection with this annual report on Form 10-K of eOn Communications Corporation ("Registrant") I, Lee M. Bowling, Chief Financial Officer of Registrant, certify, pursuant to 18 U.S.C §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Date: October 28, 2011

/S/ LEE M. BOWLING
Lee M. Bowling
Chief Financial Officer

These certifications accompany each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.