UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

[X] Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the quarterly period ended January 31, 2001.

[_] 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.)

4105 Royal Drive NW, Kennesaw, Georgia, 30144
(Address of principal executive office)

(770) 423-2200
(Telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X]   No [_]

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the latest practicable date: 11,895,944 shares of Common Stock, $.001 par value, as of January 31, 2001.

EON COMMUNICATIONS CORPORATION
FORM 10-Q
QUARTER ENDED JANUARY 31, 2001

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EON COMMUNICATIONS CORPORATION
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

eOn Communications Corporation
Consolidated Balance Sheets (Unaudited)

January 31, 2001 and July 31, 2000
(Dollars in thousands)

	January 31, 2001	July 31, 2000
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,282	$ 2,473
Marketable securities	9,500	16,337
Trade accounts receivable, net	10,110	12,381
Inventories	10,078	11,453
Income tax receivable	1,663	1,200
Other current assets	1,233	1,933
Total current assets	35,866	45,777
Property and equipment, net	3,734	2,416
Other assets:		
Goodwill, net	10,668	10,961
Intangible assets, net	190	239
Other	107	499
Total other assets	10,965	11,699
Total	$ 50,565	$59,892
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Dividend payable	$ 45	$ 46
Trade accounts payable	5,267	6,119
Accrued expenses and other	3,585	3,684
Payable to affiliate	279	89
Total current liabilities	9,176	9,938
Commitments and contingencies	-	-
Stockholders' equity:		
Common stock	12	12
Additional paid-in capital	56,470	57,585
Accumulated deficit	(14,829)	(7,379)
Note receivable from affiliate (former parent)	(264)	(264)
Total stockholders' equity	41,389	49,954
Total	$ 50,565	$59,892

See notes to consolidated financial statements.

eOn Communications Corporation and Subsidiaries
Consolidated Statements of Operations (Unaudited)
For the Three Months and Six Months Ended January 31, 2001 and 2000
(Dollars in thousands, except per share data)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2001	2000	2001	2000
Net revenues	$ 9,134	$13,364	$21,472	$27,707
Cost of revenues	7,272	8,067	14,718	15,993
Gross profit	1,862	5,297	6,754	11,714
Operating expenses:				
Selling, general, and administrative	5,560	4,658	10,760	9,322
Research and development	1,191	873	2,426	1,773
Amortization of goodwill	146	148	293	296
Restructuring charge	1,449	-	1,449	-
Total operating expenses	8,346	5,679	14,928	11,391
Income (loss) from operations	(6,484)	(382)	(8,174)	323
Interest expense	-	137	-	253
Interest income	(243)	-	(485)	-
Other expense (income), net	52	(59)	131	(68)
Income (loss) before income tax expense (benefit)	(6,293)	(460)	(7,820)	138
Income tax expense (benefit)	-	(87)	(370)	176

Net income (loss) and comprehensive income (loss)	$(6,293)	$ (373)	$(7,450)	$ (38)
Net income (loss) per common share:				
Basic	$ (0.53)	$ (0.05)	$ (0.62)	$ -
Diluted	(0.53)	(0.05)	(0.62)	-

</TABLE>

See notes to consolidated financial statements.

eOn Communications Corporation and Subsidiaries
Consolidated Statements of Cash Flows (Unaudited)
For the Six Months Ended January 31, 2001 and 2000
(Dollars in thousands)

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	Six Months Ended January 31,	
	2001	2000
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$(7,450)	$ (38)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:		
Depreciation	478	283
Amortization of intangibles	49	66
Amortization of goodwill	293	296
Amortization of deferred financing costs	-	46
Provision for the allowance for doubtful accounts	689	467
Loss on sales of property and equipment	2	-
Loss on marketable securities	46	-
Equity in earnings of joint venture	13	-
Changes in net assets and liabilities:		
Trade accounts receivable	1,581	(1,701)
Inventories	1,375	(2,586)
Other current assets	700	(35)
Other non-current assets	(4)	(435)
Trade accounts payable	(852)	4,362
Payable to affiliate	190	781
Accrued expenses and other	(99)	275
Income taxes receivable/payable	(463)	(1,422)
Net cash provided by (used in) operating activities	(3,452)	359
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(1,798)	(754)
Proceeds from sales of property and equipment	-	23
Net repayments under notes receivable from employees	-	73
Sale of marketable securities	6,791	-
Net cash provided by (used in) investing activities	4,993	(658)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Return of collateral from expired letter of credit	383	-
Purchases of treasury stock	(1,296)	-
Proceeds from ESPP and stock option exercises	181	-
Repayment of note receivable from former parent	-	420
Net borrowings (repayments) under revolving line of credit	-	30
Deferred offering costs	-	(575)
Net cash used in financing activities	(732)	(125)
Net increase (decrease) in cash and cash equivalents	809	(424)
Cash and cash equivalents, beginning of period	2,473	1,874
Cash and cash equivalents, end of period	$ 3,282	$ 1,450

</TABLE>

See notes to consolidated financial statements.

eOn Communications Corporation
Notes to Consolidated Financial Statements (Unaudited)
For the Three Months and Six Months Ended January 31, 2001 and 2000
(Dollars in thousands)

1. BASIS OF PRESENTATION

The accompanying consolidated financial statements have been prepared by eOn Communications Corporation (the "Company") without audit. It is management's opinion that these statements include all adjustments, consisting of only normal recurring adjustments except for the adjustments described in Note 2, necessary to present fairly the financial position, results of operations, and cash flows as of January 31, 2001 and for all periods presented.

Certain information and footnote disclosures normally included in the

annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. It is suggested that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto as of July 31, 2000 and 1999 and for each of the three years in the period ended July 31, 2000, which are included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

In June 1998, the FASB issued SFAS 133, "Accounting for Derivative Instruments and Hedging," which established standards of accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. The provisions of this statement are effective for fiscal years beginning after June 15, 2000. Management has determined the adoption of this statement will not have a material impact on the results of operations of financial position of the Company.

2. RESTRUCTURING

To reduce costs and improve productivity, the Company adopted a restructuring plan during the second quarter of fiscal year 2001. This restructuring plan will streamline the Company's corporate structure with the relocation and concentration of management and certain strategic functions to the Company's headquarters in Atlanta, Georgia. In addition, the restructuring plan calls for the Company to discontinue the sales of certain third-party products in both the domestic and Caribbean/Latin America operations. In connection with the restructuring plan, the Company has implemented work force reductions of approximately 20% during the quarter ended January 31, 2001.

As a result of the adoption of the restructuring plan, in the quarter ended January 31, 2001, the Company recognized a restructuring charge of $1,449,000 in our operating expenses. This charge does not include the write-down of inventory related to this restructuring plan.

Of the total restructuring charge, approximately $743,000 relates to employee termination benefits. During the quarter ended January 31, 2001, the Company terminated 60 employees. These reductions have taken place in each segment area and in all major functions. At January 31, 2001, the remaining amount of employee termination benefits recorded as a current liability was approximately $498,000.

The restructuring charge includes $706,000 for the expected costs associated with excess space at the Company's Memphis location. The excess space resulted from the Company's relocation of personnel and certain functions to the Atlanta headquarters and the corresponding reductions in our workforce. At January 31, 2001, the remaining amount of expected costs related to the unused portion of the Memphis facilities was approximately $636,000.

3. EARNINGS PER SHARE

The computations of basic and diluted earnings per share were as follows:

	Three Months Ended January 31,		Six Months Ended January 31,	
	2001	2000	2001	2000
	(In thousands, except per share data)		(In thousands, except per share data)	
Basic and diluted earnings (loss) per share:				
Net income (loss)	$(6,293)	$ (373)	$(7,450)	$ (38)
Weighted average shares outstanding - basic	11,952	7,640	12,083	7,640
Basic earnings (loss) per share	$ (0.53)	$(0.05)	$ (0.62)	$ 0.00

4. INVENTORIES

Inventories consist of the following:

	January 31, 2001	July 31, 2000
	(In thousands)	
Raw materials and purchased components	$ 4,242	$ 4,126
Finished goods	5,884	7,375
LIFO reserve	(48)	(48)
Total inventories	$10,078	$11,453

5. SEGMENT INFORMATION

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	Communications Systems – North America	Caribbean/ Latin America	Other	Reconciliations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>
(In thousands)					
Three months ended January 31, 2001:					
Revenues	$ 4,010	$ 5,124	$ 33	$ (33)	$ 9,134
Income from continuing operations	(5,110)	(1,167)	(29)	13	(6,293)
Total assets	39,017	11,548	873	(873)	50,565
Three months ended January 31, 2000:					
Revenues	8,167	5,197	58	(58)	$13,364
Income from continuing operations	(412)	39	(5)	5	(373)
Total assets	31,169	12,255	1,071	(1,071)	43,424

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	Communications Systems – North America	Caribbean/ Latin America	Other	Reconciliations	Consolidated Total
<S>	<C>	<C>	<C>	<C>	<C>
(In thousands)					
Six months ended January 31, 2001:					
Revenues	$ 10,322	$ 11,150	$ 212	$ (212)	$21,472
Income from continuing operations	(6,209)	(1,228)	(21)	8	(7,450)
Six months ended January 31, 2000:					
Revenues	18,079	9,628	130	(130)	$27,707
Income from continuing operations	(314)	276	(17)	17	(38)

</TABLE>

There have been no differences from the last annual financial statements in the basis of measuring segment profit or loss. There have been no material changes in the amount of assets for any operating segment since the last annual financial statements.

6. CHANGES IN STOCKHOLDERS' EQUITY

The following represents the changes in stockholders' equity for the six months ended January 31, 2001:

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(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Note Receivable from Affiliate	Total Stockholders' Equity
	Shares	Amount				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at July 31, 2000	12,264,446	$12	$57,585	$ (7,379)	$(264)	$49,954
Net income (loss) and comprehensive income (loss)	-	-	-	(7,450)	-	(7,450)
Repurchases of common stock	(431,500)	-	(1,296)	-	-	(1,296)
Issuance of common stock Under employee stock plan	59,431	-	174	-	-	174
Exercise of stock options	3,567	-	7	-	-	7
Balance at January 31, 2001	11,895,944	$12	$56,470	$(14,829)	$(264)	$41,389

</TABLE>

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

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 below. 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.

Overview

We design, develop and market next-generation communications servers and software for the integration and management of voice, e-mail, and Internet communications for customer contact centers and other applications. For small and medium-sized installations, we offer a traditional voice-switching platform. Through our Caribbean/Latin American operations, we sell and service communications systems and cellular telephones and resell cellular airtime. Our products help enterprises communicate more effectively with customers, convert inquiries into sales, and increase customer satisfaction and loyalty.

We recognize revenues from our eQueue and eNterprise communications server products upon completion of installation when they are sold directly to end users, due to the customized nature of each installation. We recognize revenues upon shipment for products shipped to dealers and for our Millennium products sold to end-users. We recognize revenues from the resale of cellular airtime and cellular telephones when these revenues are earned.

Net revenues in quarters ending January 31 usually decline from the previous quarter, reflecting seasonal factors that affect some of our customers. U.S. government customers typically make substantial purchases during the quarters ending October 31, the last quarter of the government's fiscal year, and these purchases decline significantly in the following quarter. Customers in such markets as contact centers, education, and retail also have seasonal buying patterns and do not purchase substantial amounts of equipment during the quarters ending January 31.

Restructuring Plan

During the quarter ended January 31, 2001, we adopted and began to implement a plan to focus our efforts on the most profitable lines of our business and structure our workforce accordingly. The plan has several components as follows:

Corporate structure and management changes.

Troy Lynch, our executive vice-president and chief technology officer, assumed the role of chief operating officer. In addition to his oversight of our engineering efforts and OEM sales development, Mr. Lynch will now oversee our sales, product development, and customer support operations. David S. Lee will continue to function as chairman and chief executive officer of eOn.

Lanny Lambert, our chief accounting officer, has assumed the role of chief financial officer. Mr. Lambert joined eOn in October 2000. His previous experience in the communications industry includes service as vice president of finance and administration and chief financial officer of CMC Industries, Inc.; vice president of finance and administration and chief financial officer of Corinth Telecommunications Corporation subsidiary of Alcatel, N.V.; and various financial and administrative positions with ITT. Mr. Lambert succeeded Stephen N. Samp, who resigned to pursue other interests.

Robert R. Cash, vice president and chief marketing officer, resigned during the current quarter. Subsequent to quarter end, we hired Kelly Bevan to fill this role. During his 20-year career in marketing and product management, Mr. Bevan has held

executive positions in the call center, networking and telecommunications industries. Most recently, he served as Vice President of Marketing at Cellit Technologies, where he successfully established a leadership position for the company in the customer interaction management market. He has also served as Vice President of Marketing at Melita International, now known as eShare, and helped establish the company as a leading vendor in the outbound call center market following its successful IPO. Other industry positions he has held: Senior Vice President of Marketing for the Americas at Newbridge Networks; Product Line Manager for the Meridian 1 at Nortel Networks; and, senior product management positions at Mitel Networks.

Focus operating resources on our Linux-based communications systems and software business.

Part of our current operations include the sale of various third-party systems and software, both within our Communications Systems - North America segment and through our Caribbean/Latin America operations. We have made the decision to discontinue the sale of certain of these third-party products, and focus our efforts on eOn branded systems. Specifically, we will be dedicating the majority of our resources to the development and marketing of our Linux-based products.

As our traditional PBX Millennium product continues to progress though the stages of its product cycle, we have taken steps to improve the profitability of this line. We have outsourced the warehousing, assembly, and repair activities associated with this product, and we will be closely monitoring the

level of resources provided to this product family. We believe the Millennium product will remain a viable communications solution for many years, and we are focused on maximizing the returns from this product line.

In connection with this change in product strategy, the company recognized $1.1 million of inventory write-downs and other charges as a cost of revenues to reflect the net realizable value of inventory in the impacted product lines. We anticipate that there may be further charges in the following quarters as we continue to analyze our businesses and refine our product strategy. In addition, we increased our provision for doubtful accounts by approximately $0.5 million to reflect the impact of these product strategy initiatives upon our outstanding customer accounts.

Relocation of personnel and concentration of strategic functions.

The company established our corporate headquarters in the Atlanta metropolitan area in June 2000. We have decided to concentrate our marketing and OEM efforts at the corporate headquarters, as well as other strategic functions and support personnel. In connection with this decision, we have relocated personnel to the corporate headquarters, and will continue to do so over the next two quarters. We expect to incur additional expense of approximately $0.2 million to complete these efforts.

Because of the consolidation of functions at our corporate headquarters, the company has excess space at our Memphis location. We hope to locate a tenant to assume this space in the near future. Included in the restructuring charge in the current quarter is $0.7 million which relates to the costs of finding a suitable tenant and executing a sublease agreement.

Workforce reductions.

As a direct result of the above initiatives, we were able to reduce our workforce by over 20% in the current quarter. The company recognized $0.7 million in employee severance expenses, which were recorded as a component of the restructuring charge in operating expense. As we continue to analyze our core businesses and refine our strategy, there may be the opportunity for further work force reductions. Any further work force reductions would result in additional termination expenses.

Three Months Ended January 31, 2001 and 2000

Net Revenues. Total revenues decreased 31.7% to $9.1 million in the quarter ended January 31, 2001 from $13.4 million in the quarter ended January 31, 2000. Sales of communications systems in the U.S. declined $4.2 million, while revenues in our Caribbean and Latin America operations were relatively unchanged. The volume decline in the U.S. from Q2 2000 to Q2 2001 resulted primarily from purchases by customers in Q2 2000 related to Year 2000 upgrades and demand weakness in the current quarter. Sales in Caribbean and Latin America reflected increased revenues from the sale of wireless phones and decreased sales of communication systems.

Cost of Revenues and Gross Profit. Cost of revenues consists primarily of purchases from our contract manufacturers and other suppliers and costs incurred for final assembly, quality assurance and installation of our systems. Gross profit

decreased 64.8% to $1.9 million in the quarter ended January 31, 2001 from $5.3 million in the quarter ended January 31, 2000. The decrease resulted primarily from decreased communications systems gross profit of $2.5 million and decreased Caribbean/Latin America gross profit of $1.0 million. Our gross margin was 20.4% in the quarter ended January 31, 2001 and 39.7% in the quarter ended January 31, 2000. The lower gross margin in the current quarter was due primarily to the increase in the sale of lower margin wireless products in the Caribbean and Latin America and a write-down of specific inventory items to net realizable value in connection with the restructuring plan and outsourcing initiatives.

Selling, General and Administrative. Selling, general and administrative expenses consist primarily of salaries and benefit costs, advertising and trade show related costs, and facilities and other overhead expenses incurred to support our business. Selling, general and administrative expenses increased 19.4% to $5.6 million in the quarter ended January 31, 2001 from $4.7 million in the quarter ended January 31, 2000. The increase was primarily due to increased marketing expenses and the hiring of additional sales and customer service personnel to support anticipated growth of the business. Also included in SG&A for the second quarter was $0.6 million in charges made in connection with the restructuring charge primarily to increase the allowance for doubtful accounts. These expenses as a percentage of revenues increased to 60.9% in the quarter ended January 31, 2001 from 34.9% in the quarter ended January 31, 2000. Although selling, general and administrative expenses increased in comparison to the prior periods, we believe these expenses will decrease as the results of our restructuring plan are realized. However, as described further in "Additional Risk Factors That May Affect Future Results of Operations," there is no certainty that the restructuring plan will prove to be successful.

Research and Development. Research and development expenses consist primarily of personnel and related expenses for our engineering staff and depreciation of related equipment. Research and development expenses increased 36.4% to $1.2 million in the quarter ended January 31, 2001 from $0.9 million in the quarter ended January 31, 2000. The increased expenses were primarily due to the hiring of additional engineers to support the development efforts of our

communication server products and related software applications. These expenses as a percentage of revenues increased to 13.0% in the quarter ended January 31, 2001 from 6.5% in the quarter ended January 31, 2000.

Amortization of Goodwill. We recorded $11.7 million of goodwill related to the acquisition of BCS Technologies, Inc. in April 1999 and are amortizing the amount over a 20-year period.

Restructuring Charge. We recorded a restructuring charge of $1.4 million in the quarter ended January 31, 2001 to reflect the expenses associated with concentrating functions at our Atlanta headquarters and exiting certain product lines. See "Footnote 2 - Restructuring" in the Notes to Consolidated Financial Statements and the discussion under "Restructuring Plan" in the preceding section.

Interest income and expense. We had no interest expense in the current quarter. Interest expense was $0.1 million in the quarter ended January 31, 2000. Interest expense declined due to the retirement of all outstanding debt in connection with our initial public offering in February 2000. Interest income was $0.2 million in the current quarter. We had no interest income in the quarter ended January 31, 2000. The increase was due to the investment of funds from our initial public offering in interest-bearing available for sale securities.

Other income and expense. Other (income) expense was $0.1 million and ($0.1) million in the quarters ended January 31, 2001 and 2000, respectively. Other expense in the current quarter included the recognition of a loss on marketable securities from an investment in equity securities of a publicly traded company.

Income tax expense and benefit. We recognized no income tax expense or benefit in the current quarter. An income tax benefit of $0.1 million was recognized in the quarter ended January 31, 2000. No benefit was recorded in the current quarter due to the lack of taxable income available in prior years to apply current operating losses.

Six Months Ended January 31, 2001 and 2000

Net Revenues. Total revenues decreased 22.5% to $21.5 million in the six months ended January 31, 2001 from $27.7 million in the six months ended January 31, 2000. Sales of communications systems in the U.S. declined $7.7 million, while revenues in our Caribbean and Latin America operations increased $1.5 million. The volume decline in the U.S. from 2000 to 2001 resulted primarily from purchases by customers in the prior period related to Year 2000 upgrades and demand weakness in the current six months. Sales in Caribbean and Latin America reflected increased revenues from the sale of wireless phones and decreased sales of communication systems.

Cost of Revenues and Gross Profit. Gross profit decreased 42.3% to $6.8 million in the six months ended January 31, 2001 from $11.7 million in the six months ended January 31, 2000. The decrease resulted primarily from decreased communications systems gross profit of $4.2 million and decreased Caribbean/Latin America gross profit of $0.7 million. Our gross margin was 31.5% in the six months ended January 31, 2001 and 42.3% in the six months ended January 31, 2000. The lower gross margin in the current six months was due primarily to the increase in the sale of lower margin wireless products in the Caribbean and Latin America and a write-down of specific inventory items to net realizable value in connection with the restructuring plan and outsourcing initiatives.

Selling, General and Administrative. Selling, general and administrative expenses increased 15.4% to $10.8 million in the six months ended January 31, 2001 from $9.3 million in the six months ended January 31, 2000. The increase was primarily due to increased marketing expenses and the hiring of additional sales and customer service personnel to support anticipated growth of the business. Also included in SG&A in the current period was $0.6 million in charges made in connection with the restructuring charge primarily to increase the allowance for bad debts. These expenses as a percentage of revenues increased to 50.1% in the six months ended January 31, 2001 from 33.6% in the six months ended January 31, 2000. Although selling, general and administrative expenses increased in comparison to the prior periods, we believe these expenses will decrease as the results of our restructuring plan are realized. However, as described further in "Additional Risk Factors That May Affect Future Results of Operations," there is no certainty that the restructuring plan will prove to be successful.

Research and Development. Research and development expenses increased 36.8% to $2.4 million in the six months ended January 31, 2001 from $1.8 million in the six months ended January 31, 2000. The increased expenses were primarily due to the hiring of additional engineers to support the development efforts of our communication server products and related software applications. These expenses as a percentage of revenues increased to 11.3% in the six months ended January 31, 2001 from 6.4% in the six months ended January 31, 2000.

Amortization of Goodwill. We recorded $11.7 million of goodwill related to the acquisition of BCS Technologies, Inc. in April 1999 and are amortizing the amount over a 20-year period.

Restructuring Charge. We recorded a restructuring charge of $1.4 million in the six months ended January 31, 2001 to reflect the expenses associated with

concentrating functions at our Atlanta headquarters and exiting certain product lines. See "Footnote 2 - Restructuring" in the Notes to Consolidated Financial Statements and the discussion under "Restructuring Plan".

Interest income and expense. We had no interest expense in the current six months. Interest expense was $0.3 million in the six months ended January 31, 2000. Interest expense declined due to the retirement of all outstanding debt in connection with our initial public offering in February 2000. Interest income was $0.5 million in the current six months. We had no interest income in the six months ended January 31, 2000. The increase was due to the investment of funds from our initial public offering in interest-bearing available for sale securities.

Other income and expense. Other (income) expense was $0.1 million and ($0.1) million in the six months ended January 31, 2001 and 2000, respectively. Other expense in the current six months included the recognition of a loss on marketable securities from an investment in equity securities of a publicly traded company.

Income tax expense and benefit. We recognized an income tax benefit of $0.4 million in the six months ended January 31, 2001, versus income tax expenses of $0.2 million in the six months ended January 31, 2000. The benefit in the current period resulted primarily from the carryback of operating losses to prior periods to realize a tax refund.

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by (used in) operating activities was ($3.5) million and $0.4 million for the six months ended January 31, 2001 and 2000, respectively. The decrease from the prior year was due primarily to lower net income in the current fiscal year of ($7.4) million, offset by collections of accounts receivable and a decrease in inventories.

Net cash provided by (used in) investing activities was $5.0 million and ($0.7) million for the six months ended January 31, 2001 and 2000, respectively. Cash provided by investing activities in the current period consisted primarily of $6.8 million from sales of short-term available-for-sale debt securities, offset by purchases of property and equipment of ($1.8)

million. The majority of the property and equipment purchases were non-recurring expenditures for leasehold improvements and related equipment at our facility in Memphis, Tennessee.

Net cash used in financing activities was ($0.7) million and ($0.1) million for the six months ended January 31, 2001 and 2000, respectively. Cash used in financing activities in the current period consisted primarily of purchases of common stock under the Company's stock repurchase program.

We believe that our available funds will satisfy our projected working capital and capital expenditure requirements at least through calendar year 2001. To the extent future revenues are not realized or we grow more rapidly than expected, we may need additional cash to finance our operating and investing activities.

ADDITIONAL RISK FACTORS THAT MAY AFFECT FUTURE RESULTS OF OPERATIONS

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.

OUR RESTRUCTURING PLAN MAY NOT BE SUCCESSFUL.

In the second quarter of fiscal year 2001, the Company adopted a restructuring plan which involves both a reduction in the Company's workforce and the relocation and concentration of management and certain strategic functions. The majority of the restructuring actions will be completed by July 31, 2001. No assurance can be given that the restructuring will prove to be successful, that future operating results will improve, or that the completion of the restructuring will not disrupt the Company's operations. Further, there can be no assurance that additional reorganization of the Company's operations will not be required in the future.

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;
- declining market for traditional private branch exchange (PBX) equipment;

- 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 and educational and retail buyers, follow seasonal buying patterns and do not make substantial purchases during the 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.

WE MAY NOT SUCCESSFULLY INTRODUCE NEW PRODUCTS THAT ARE PLANNED FOR THE NEAR FUTURE WHICH COULD HARM OUR BUSINESS AND FINANCIAL CONDITION.

We plan to introduce new products in the near future to serve the evolving contact center and e-commerce markets. These new products must achieve market acceptance, maintain technological competitiveness and meet increasing customer requirements. New products may require long development and testing periods. Significant delays in the development, release, installation or implementation of new products could harm our business and financial condition.

Planned Increases in operating expenses to develop and sell new products may result in operating losses.

We intend to increase our operating expenses, particularly expenses related to sales and marketing and development of new distribution channels. We will need to generate significant additional revenue to attain profitability. If we incur losses, our stock price could decline.

Our communications servers and software 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 are scrambling to develop products to improve customer service in e-commerce. While the industry remains fragmented, it is rapidly moving toward consolidation, driven by both emerging companies' desires to expand product offerings and resources and established companies' attempts to acquire new technology and reach new market segments. A number of emerging companies have completed initial public offerings in recent months, while many more remain private. More established competitors, as well as those emerging companies that have completed initial public offerings, currently have greater resources and market presence than we do. Additionally, a number of our current and potential competitors have recently been acquired by larger companies who seek to enter our markets.

We expect competition to intensify as competitors develop new products, competitors gain additional financial resources from public offerings, 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 five categories:

- data communications equipment suppliers, such as Cisco Systems, 3Com and Sun Microsystems;
- web center software and services suppliers, such as eGain, Kana Communications, Quintus, E.piphany, and WebLine Communications (acquired by Cisco);
- contact center software and services suppliers, such as Aspect Communications, Clarify (acquired by Nortel Networks), Genesys Telecommunications Laboratories (acquired by Alcatel), Interactive Intelligence, Kana Communications, and Vantive (acquired by PeopleSoft);
- emerging private communications exchange (PCX) suppliers, such as AltiGen Communications, Artisoft, Cisco Systems, NBX Corporation (acquired by 3Com); and
- voice communications equipment suppliers, such as Alcatel, Aspect Communications, Avaya, Mitel, NEC, Nortel Networks, Rockwell Electronic Commerce and Siemens.

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.

If we cannot develop a new indirect sales channel to sell our eNterprise communications servers, our ability to generate revenue would be harmed.

We sell our eQueue communications servers directly and our eNterprise and Web Center communications servers both directly and indirectly through dealers and value added resellers that have experience in data as well as voice communications. We may not be able to develop this new indirect sales channel.

In addition, these new distribution partners may devote fewer resources to marketing and supporting our products than to our competitors' products and could discontinue selling our products at any time in favor of our competitors' products or for any other reason.

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 communications servers and from one to six months for our Millennium voice switching platform and eNterprise communications servers. The purchase of our products may involve a significant commitment of our customers' time, personnel, financial, and other resources. We generally recognize revenues on the date of shipment for Millennium and eNterprise systems shipped to dealers and upon completion of installation for our eQueue and eNterprise communications servers sold directly to end users due to the customized nature of these installations. 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.

If the acceptance of the Linux operating system does not continue, our ability to market our products could be adversely affected.

Our next-generation communications servers run on the Linux operating system. Our products also incorporate application software developed specifically for the Linux operating system. Our ability to market our products could be adversely affected and we may incur significant development costs if:

- the Linux operating system does not evolve to meet changing market needs;
- new applications are not developed for the Linux operating system; or
- other operating systems, such as Microsoft Windows NT, reduce the recent growing acceptance of Linux.

In addition, any other factor that reduces acceptance of the Linux operating system could also reduce acceptance of our products and harm our business, results of operations and financial condition.

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.

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.

If we are not be able to grow or sustain our Millennium voice switching platform revenues, our business, operating results and financial condition could be harmed.

We may not be able to grow or sustain our Millennium revenues because the traditional private branch exchange (PBX) market, which accounts for a substantial portion of our Millennium revenues, is declining. One reason for the decline of the traditional PBX market is the emergence of voice switching platforms based on standard PCs. If we are not able to grow or sustain our Millennium voice switching platform revenues, our business, operating results and financial condition could be harmed.

In addition, a significant portion of Millennium 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.

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, voice processor boards, wireless handsets and base stations. 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 ACT manufacturing, Inc., 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 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 January 31, 2001, our executive officers, directors and principal stockholders and their affiliates owned 4,688,575 shares, or 39% 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 after our initial public offering, 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities." We are required to adopt SFAS No. 133, as amended by SFAS No. 138, for the year ending July 31, 2001. SFAS No. 133 established accounting and reporting standards for derivative instruments, including certain derivative instruments imbedded in other contracts, and for hedging activities. We have determined that the adoption of this statement will not have a material impact on the results of operations of financial position of the Company.

In December 1999, the Securities and Exchange Commission issued Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". SAB No. 101 summarizes the staff's various views in applying generally accepted accounting principles to revenue recognition in financial statements. We have evaluated our revenue recognition policies and concluded that they comply with this SAB.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCOSURE ABOUT MARKET RISK.

Substantially all of our cash equivalents and marketable securities are invested in variable rate instruments with frequent rate resets. Because these securities have short effective maturities, we believe the market risk for such holdings is insignificant. In addition, the vast majority of our sales are made in U.S. dollars and, consequently, we believe that our foreign currency exchange rate risk is immaterial. We do not have any derivative instruments and do not engage in hedging transactions.

PART II - OTHER INFORMATION

Item 4. Submission of Matters to a Vote of Security Holders.

We held the 2000 Annual Meeting of Stockholders on December 20 at our corporate headquarters. At that meeting, a majority of stockholders voted to elect Stephen R. Bowling (8,568,418 votes for, 51,322 votes withheld) and Jenny Hsui Theleen (8,267,887 votes for, 251,843 votes withheld) to serve as directors for a term of three years. Robert Dilworth, Frank King, and David Lee are continuing directors who were not up for election at the meeting.

In addition, stockholders ratified the appointment of Deloitte & Touche LLP (8,391,589 votes for, 26,538 votes against, 201,603 abstentions) as our independent auditors for the fiscal year ending July 31, 2001.

Item 6. Exhibits and Reports on Form 8-K.

(A) Exhibits.

Exhibit 27 - Financial Data Schedule

(B) Reports On Form 8-K.

We did not file any reports on Form 8-K during the quarter ended January 31, 2001.

SIGNATURE

Pursuant to the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto authorized.

EON COMMUNICATIONS CORPORATION

Date: March 14, 2001 \s\ Lanny Lambert

Lanny Lambert
Vice President, Chief Financial Officer
(Principal Financial and Accounting Officer)

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