UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended January 31, 2003.

☐ **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, Suite 100, 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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer’s classes of Common Stock, as of the latest practicable date: 12,050,963 shares of Common Stock, $.001 par value, as of February 28, 2003.

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FORM 10-Q
QUARTER ENDED JANUARY 31, 2003

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EON COMMUNICATIONS CORPORATION
PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

eOn Communications Corporation
Balance Sheets (Unaudited)
January 31, 2003 and July 31, 2002
(Dollars in thousands)

	January 31, 2003	July 31, 2002
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,403	$ 2,682
Marketable securities	5,200	6,610
Trade accounts receivable	2,666	1,986
Inventories	2,775	2,710
Other current assets	243	125
Total current assets	12,287	14,113
Property and equipment, net	1,421	1,631
Intangible assets, net	22	27
Total	$ 13,730	$ 15,771
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	1,604	1,292
Accrued special charges	—	234
Accrued expenses and other	2,008	1,983
Note payable – current	665	665
Payable to affiliate	62	84
Total current liabilities	4,339	4,258
Note payable – noncurrent	280	613
Commitments and contingencies	—	—
Stockholders' equity:		
Common stock	12	12
Additional paid-in capital	51,882	51,877
Accumulated deficit	(42,783)	(40,989)
Total stockholders' equity	9,111	10,900
Total	$ 13,730	$ 15,771

See notes to financial statements.

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eOn Communications Corporation and Subsidiaries
Consolidated Statements of Operations (Unaudited)
For the Three Months and Six Months Ended January 31, 2003 and 2002
(Dollars in thousands, except per share data)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2003	2002	2003	2002
Net revenue	$4,118	$ 3,030	$ 7,673	$ 8,052
Cost of revenues	1,629	1,359	3,399	3,557
Gross profit	2,489	1,671	4,274	4,495
Operating expenses:				
Selling, general, and administrative	2,338	2,366	4,638	4,805
Research and development	733	719	1,480	1,494
Special charges	(63)	—	(63)	—
Total operating expenses	3,008	3,085	6,055	6,299
Loss from operations	(519)	(1,414)	(1,781)	(1,804)
Interest income	(27)	(78)	(64)	(186)
Interest expense	8	—	17	—
Other expense (income), net	32	33	60	42
Loss from continuing operations before income tax benefit	(532)	(1,369)	(1,794)	(1,660)
Income tax benefit	—	—	—	—
Loss before discontinued operations and cumulative effect of change in accounting principle	(532)	(1,369)	(1,794)	(1,660)
Loss from discontinued operations, net of tax	—	(571)	—	(636)
Loss before cumulative effect of change in accounting principle	(532)	(1,940)	(1,794)	(2,296)
Cumulative effect of change in accounting principle, net of tax	—	—	—	(10,375)
Net loss	$ (532)	$(1,940)	$(1,794)	$(12,671)
Net loss per common share				
Basic and Diluted:				
Net loss from continuing operations	$(0.04)	$ (0.11)	$ (0.15)	$ (0.14)
Discontinued operations, net of tax	(0.00)	(0.05)	(0.00)	(0.05)
Cumulative effect of change in accounting principle, net of tax	(0.00)	0.00	(0.00)	(0.86)
Net loss per common share	$(0.04)	$ (0.16)	$ (0.15)	$ (1.06)

See notes to consolidated financial statements

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eOn Communications Corporation
Statements of Cash Flows (Unaudited)
For the Six Months Ended January 31, 2003 and 2002
(Dollars in thousands)

	Six Months Ended January 31, 2003	Six Months Ended January 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(1,794)	$(12,671)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss from discontinued operations	—	636
Cumulative effect of change in accounting principle	—	10,375
Depreciation and amortization	368	385
Changes in net assets and liabilities (net of effects of discontinued operations):		
Trade accounts receivable	(680)	967
Inventories	(65)	352
Other current assets	(118)	(200)
Trade accounts payable	312	20
Receivable/payable to affiliate	(22)	5
Accrued expenses and other	(14)	223
Accrued special charges	(195)	(987)
Net cash used in operating activities	(2,208)	(895)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(152)	(80)
Purchases of marketable securities	(1,500)	(3,310)
Sales of marketable securities	2,909	2,900
Net cash provided by (used in) investing activities	1,257	(490)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(333)	—
Purchases of treasury stock	(3)	(203)
Proceeds from ESPP and stock option exercises	8	44
Net cash used in financing activities	(328)	(159)
CASH TO DISCONTINUED OPERATIONS	—	(143)
Net decrease in cash and cash equivalents	(1,279)	(1,687)
Cash and cash equivalents, beginning of period	2,682	3,590
Cash and cash equivalents, end of period	$ 1,403	$ 1,903

See notes to financial statements.

eOn Communications Corporation
Notes to Financial Statements (Unaudited)
For the Three Months and Six Months Ended January 31, 2003 and 2002
(Dollars in thousands)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared by eOn Communications Corporation ("eOn" or the "Company"). It is management's opinion that these statements include all adjustments, consisting of only normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows as of January 31, 2003 and for all periods presented.

The Company also had a wholly-owned subsidiary, Cortelco Systems Puerto Rico, Inc. ("CSPR"), based in San Juan Puerto Rico. On August 28, 2001, the Board of Directors approved a plan to spin-off this subsidiary as a separate entity to the stockholders of eOn. This action was completed on July 31, 2002 via a distribution of all the outstanding shares of CSPR to the shareholders of eOn. Therefore, the assets, liabilities, results of operations and cash flows of this entity have been segregated and are reflected in the financial statements of eOn as a discontinued operation for all periods. The Company's financial statements have been restated to conform to the discontinued operations presentation. See Footnote 3 for additional information.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America 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, 2002 and 2001 and for each of the three years in the period ended July 31, 2002, which are included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No. 142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill should be amortized over their useful lives. Management adopted SFAS No. 142 on August 1, 2001. See Footnote 5 for more information.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a significant impact on the Company's future results of operations or financial position.

2. REVENUE RECOGNITION

Revenues from our Millennium and eQueue 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. The Company believes that its revenue recognition policies are compliant with Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," and Statement of Position No. 97-2, "Software Revenue Recognition."

3. DISCONTINUED OPERATIONS

On August 28, 2001, the Board of Directors of the Company approved a plan to spin-off Cortelco Systems Puerto Rico, eOn's wholly-owned Caribbean/Latin America service and distribution subsidiary, as an independent entity headquartered in San Juan, Puerto Rico. The spin-off transaction was completed on July 31, 2002 with the issuance of CSPR shares on a 1-for-10 basis to eOn stockholders.

The Company's financial statements have been restated to reflect the Caribbean / Latin America subsidiary as a discontinued operation for all periods presented. Summarized results of the discontinued business are shown separately as discontinued operations in the accompanying consolidated financial statements.

Operating results of the discontinued operations are as follows:

	Three months ended January 31, 2002	Six months ended January 31, 2002
	(In thousands)	
Net sales	$ 2,398	$ 6,150
Loss before income taxes	(571)	(636)
Income tax expense	—	—
Net loss from discontinued operations	$ (571)	$ (636)
Net loss per share:		
Basic and diluted	$ (0.05)	$ (0.05)

4. SPECIAL CHARGES

To reduce costs and improve productivity, the Company adopted a restructuring plan during the second quarter of fiscal year 2001, which included headcount reductions and office space consolidation and resulted in charges of $2,199,000. During the fourth quarter of 2001, the Company made the decision to consolidate the majority of functions to its Atlanta headquarters, which resulted in additional charges of $4,500,000. In fiscal 2002, the Company recorded additional special charges to reflect the impact of a lease termination agreement for its former facility in Memphis, Tennessee and to properly value excess inventories on hand at July 31, 2002.

Major components of the restructuring plan included corporate management changes; the relocation and concentration of management and strategic functions at the Company’s headquarters in Atlanta, Georgia; site closures; outsourcing initiatives for the assembly, repair, and manufacturing of our products; and workforce reductions of approximately 40%. The majority of the restructuring plan was completed by July 31, 2002. The remaining expenditures for the restructuring plan were completed during the quarter ended January 31, 2003

The following table summarizes the activity relating to the special charges during the first two quarters of fiscal 2003 and the associated liabilities at January 31, 2003:

	July 31, 2002 Liability Balance	Charges	Expenditures	Other Adjustments	Jan 31, 2003 Liability Balance
Termination benefits	$ 61	$ —	$ (61)	$ —	$ —
Excess facilities cost	173	(63)	(110)	—	—
Total	$ 234	$ (63)	$ (171)	$ —	$ —

5. ACCOUNTING FOR GOODWILL

In June 2001, the FASB issued SFAS No.142, “Goodwill and Other Intangible Assets” which changes the method by which companies may recognize intangible assets in purchase business combinations and generally requires identifiable intangible assets to be recognized separately from goodwill. In addition, it eliminates the amortization of all existing and newly acquired goodwill on a prospective basis and requires companies to assess goodwill for impairment, at least annually, based on the fair value of the reporting unit associated with the goodwill. The Company elected to early adopt SFAS No.142 on August 1, 2001, and ceased amortizing goodwill as of this date.

Goodwill of $11,724,000 had been recorded in conjunction with the acquisition of BCS Technologies in April 1999. This balance was subsequently reduced by $1,349,000 due to amortization expense in fiscal years 2001, 2000, and 1999. On August 1, 2001 the Company adopted SFAS No. 142, “*Goodwill and Other Intangible Assets,*” which changed the method of evaluating goodwill from a recoverability test based upon undiscounted cash flows to a fair value approach. Accordingly, the Company’s previously recognized goodwill was tested for impairment as of August 1, 2001. The Company calculated the fair value of the reporting unit using a combination of the Company’s quoted market prices and a discounted cash flow analysis.

As a result of this analysis, the Company concluded that goodwill was impaired and recorded an impairment charge in the amount of $10,375,000, which is reflected as a cumulative effect of change in accounting principle in the accompanying condensed consolidated statement of operations for the six months ended January 31, 2002. The income tax effect of this change in accounting principle was $0.

6. LOSS PER SHARE

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

	Three Months Ended January 31		Six Months Ended January 31, 2003	
	2003	2002	2003	2002
	(In thousands, except per share data)			
Basic and diluted loss per share:				
Loss from continuing operations	$ (532)	$(1,369)	$(1,794)	$(1,660)
Weighted average shares outstanding	12,051	11,981	12,050	11,999
Loss from continuing operations per share	$ (0.04)	$ (0.11)	$ (0.15)	$ (0.14)

Potential common shares related to options outstanding to purchase shares of common stock were excluded from the computation of diluted loss per shares for both quarters presented above because their inclusion would have had an anti-dilutive effect. There were 1,779,742 and 1,787,463 options outstanding at January 31, 2003 and 2002, respectively.

7. INVENTORIES

Inventories consist of the following:

	Jan 31, 2003	July 31, 2002
	(In thousands)	
Raw materials and purchased components	$ 382	$ 68
Finished goods	2,393	2,642
Total inventories	$ 2,775	$ 2,710

8. PRODUCT WARRANTIES

The Company provides standard product warranties from the date of purchase. The costs of satisfying warranty claims have historically been comprised of materials and direct labor costs. The Company estimates the cost of satisfying warranty claims based on analysis of past claims experience. Quarterly evaluations of these estimates are performed, and any changes in estimate, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

Information regarding the changes in the Company’s aggregate product warranty accrual for the six-month reporting period was as follows:

	Six Months Ended January 31,	
	2003	2002
	(in thousands)	
Beginning balance	$ 199	$ 221
Warranty cost incurred	(123)	(146)
Accruals for warranties issued during the period	145	102
Accrual related to pre-existing warranties (including changes in estimates)	—	—
	$ 221	$ 177

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9. CHANGES IN STOCKHOLDERS' EQUITY

The following represents the changes in stockholders' equity for the six months ended January 31, 2003:

	Common Stock		Additional Paid-in Capital	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount			
	(In thousands, except share data)				
Balance at July 31, 2002	12,040,634	$ 12	$ 51,877	$ (40,989)	$ 10,900
Net loss and comprehensive loss	—	—	—	(1,794)	(1,794)
Repurchases of common stock	(10,900)	—	(3)	—	(3)
Issuance of common stock under employee stock plan	21,229	—	8	—	8
Balance at January 31, 2003	12,050,963	$ 12	$ 51,882	$ (42,783)	$ 9,111

10. COMMITMENTS AND CONTINGENCIES

At January 31, 2003, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $1,821,498.

During fiscal 2002, the Company entered into a lease termination agreement for its former facility in Memphis, Tennessee. A $1,400,000 declining balance letter of credit, secured by $1,400,000 of municipal securities, was issued to secure payments under the termination agreement. The balance of the letter of credit as of January 31, 2003 was $1,225,000.

The Company issued a standby letter of credit in the amount of $374,000 during the first quarter to secure performance and payment under a contract entered into with a municipal customer. The letter of credit is secured by $374,000 in municipal securities and expires on June 15, 2003.

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.

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.

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Overview

We design, develop and market next-generation communications servers which integrate and manage voice, email and Internet communications for customer contact centers and other applications. We also offer a traditional voice-switching platform for small and medium-sized installations.

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.

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 Note 2, "Summary of Significant Accounting Policies," in Part II, Item 8, "Consolidated Financial Statements and Supplementary Data," of our Annual Report on Form 10-K for the year ended July 31, 2002.

- Product Warranties – We provide our customers with standard product warranties from the date of purchase. The costs of satisfying warranty claims have historically been comprised of materials and direct labor costs. We estimate the costs of satisfying warranty claims based on analysis of past claims experience. We perform quarterly evaluations of these estimates, and any changes in estimate, 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.
- 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 and relationship of 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.

Three Months Ended January 31, 2003 and 2002

The following discussion provides information about the Company's continuing operations, which excludes the results of Cortelco Systems Puerto Rico, Inc. (see Footnote 3 – Discontinued Operations in the notes to the consolidated financial statements).

Net Revenues. Total revenues increased 35.9% to $4.1 million in the quarter ended January 31, 2003 from $3.0 million in the quarter ended January 31, 2002. The increase from Q2 2002 to Q2 2003 resulted primarily from increased sales of our eQueue product of $1.3 million, offset by a decline in Millennium revenues of $0.3 million. The large increase in eQueue sales reflected significant revenues from our international and domestic resellers.

Cost of Revenues and Gross Profit. Cost of revenues consist primarily of purchases from our contract manufacturers and other suppliers and costs incurred for final assembly of our systems. Gross profit increased 49.0% to $2.5 million in the quarter ended January 31, 2003 from $1.7 million in the quarter ended January 31, 2002, primarily due to the higher level of eQueue revenues. Gross margin increased to 60.4% in the quarter ended January 31, 2003 from 55.1% in the quarter ended January 31, 2002, due to a larger percentage of current quarter revenues being derived from the sale of our higher margin eQueue products.

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 decreased 1.2% to $2.3 million in the quarter ended January 31, 2003 from $2.4 million in the quarter ended January 31, 2002, as our expense structure was essentially unchanged from the prior year.

Research and Development. Research and development expenses consist primarily of personnel and related facility costs for our engineering staff. Research and development expenses were relatively unchanged at $733 thousand in the quarter ended January 31, 2003 compared to $719 thousand in the quarter ended January 31, 2002.

Special charges. During the quarter ended January 31, 2003, the Company agreed upon and settled its liability for recapture taxes for the former Memphis facility. As a result of this favorable settlement and the previous settlement of all other liabilities from our restructuring plan, the company recognized income of $63 thousand in operating expenses as a result of eliminating the accrued liability for special charges.

Interest and other income and expense. Interest income was $27 thousand in the current quarter, as compared to $78 thousand in the quarter ended January 31, 2002. The decrease was due to significantly lower interest rates and a lower level of investments in marketable securities. Interest expense was $8 thousand in the current quarter, resulting entirely from interest on the note payable associated with the termination of the lease on the Memphis facility. There was no interest expense in the prior year quarter. Other income and expense was relatively unchanged at $32 thousand in the current quarter and $33 thousand in the prior year period.

Six Months Ended January 31, 2003 and 2002

The following discussion provides information about the Company’s continuing operations, which excludes the results of Cortelco Systems Puerto Rico, Inc. (see Footnote 3 – Discontinued Operations in the notes to the consolidated financial statements).

Net Revenues. Total revenues decreased 4.7% to $7.7 million in the six months ended January 31, 2003 from $8.1 million in the six months ended January 31, 2002. The decline resulted primarily from increased eQueue revenues of $0.2 million, which were more than offset by a decline in Millennium revenues of $0.6 million. The decline in Millennium revenues was primarily due to a weaker U.S. economic environment during the current period.

Cost of Revenues and Gross Profit. Gross profit decreased 4.9% to $4.3 million in the period ended January 31, 2003 from $4.5 million in the period ended January 31, 2002, in line with the lower level of revenues. Gross margin was relatively unchanged at 55.7% in the six months ended January 31, 2003 from 55.8% in the six months ended January 31, 2002.

Selling, General and Administrative. Selling, general and administrative expenses decreased 3.5% to $4.6 million in the period ended January 31, 2003 from $4.8 million in the period ended January 31, 2002. The decrease was primarily due to reductions in personnel and related expenses from the implementation of our restructuring plan.

Research and Development. Research and development expenses were unchanged at $1.5 million in the six months ended January 31, 2003 and 2002.

Special charges. During the six months ended January 31, 2003, the Company agreed upon and settled its liability for recapture taxes for the former Memphis facility. As a result of this favorable settlement and the previous settlement of all other liabilities from our restructuring plan, the company recognized income of $63 thousand in operating expenses as a result of eliminating the accrued liability for special charges.

Interest and other income and expense. Interest income was $64 thousand in the current period, as compared to $186 thousand in the six months ended January 31, 2002. The decrease was due to significantly lower interest rates and a lower level of investments in marketable securities. Interest expense was $17 thousand in the current period, resulting entirely from interest on the note payable associated with the termination of the lease on the Memphis facility. There was no interest expense in the prior year period. Other income and expense was relatively unchanged at $60 thousand in the current period and $42 thousand in the prior year period.

Cumulative Effect of Change in Accounting Principle. We recorded $11.7 million of goodwill related to the acquisition of BCS Technologies, Inc. in April 1999 and amortized the amount using an estimated 20-year life through fiscal 2001. On

August 1, 2001 the Company adopted SFAS No. 142, “Goodwill and Other Intangible Assets,” which changed the method of evaluating goodwill for impairment from a recoverability test based upon undiscounted cash flows to a fair value approach, which is stipulated in SFAS No. 142. In addition, the new standard eliminated the periodic amortization of goodwill.

The adoption of SFAS No. 142 on August 1, 2001 resulted in the Company recording goodwill impairment in the amount of $10,375,000, which is reflected as a cumulative effect of change in accounting principle in the financial statements for the six months ended January 31, 2002. The income tax effect of this change in accounting principle was $0.

LIQUIDITY AND CAPITAL RESOURCES

As of January 31, 2003, we had cash and cash equivalents of $1.4 million, $5.2 million in short term investments, and a working capital balance of $7.9 million. Our short term investments are primarily invested in taxable auction rate securities with frequent rate resets.

Our operating activities resulted in net cash outflows of $2.2 million and $0.9 million for the six months ended January 31, 2003 and 2002, respectively. The net operating cash outflow for the current period was primarily the result of our operating loss (adjusted for non-cash items) and an increase in accounts receivable associated with the increase in revenues at the end of the period. The net operating cash outflow for the prior period was primarily the result our operating loss (adjusted for non-cash items), which was significantly affected by decreases in accounts receivable and inventories and expenditures for accrued special charges.

Our investing activities resulted in a cash inflow of $1.3 million for the six months ended January 31, 2003, and a cash outflow of $0.5 million for the six months ended January 31, 2002. Cash provided by investing activities in the current period consisted primarily of $1.4 million in net sales of marketable securities offset by $0.2 million in capital expenditures. Cash used in investing activities for the period ended January 31, 2002 consisted primarily of net purchases of $0.4 million in marketable securities in addition to purchases of property and equipment of $0.1 million.

Our financing activities have resulted in cash outflows of $0.3 million and $0.2 million for the six months ended January 31, 2003 and 2002, respectively. Cash used in financing activities in the current period consisted primarily of payments against our outstanding note payable. In the prior period, cash used in financing activities 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 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 and investing activities.

COMMITMENTS AND CONTINGENCIES

At January 31, 2003, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $1,821,498.

During fiscal 2002, the Company entered into a lease termination agreement for its former facility in Memphis, Tennessee. A $1,400,000 declining balance letter of credit, secured by $1,400,000 of municipal securities, was issued to secure payments under the termination agreement. The balance of the letter of credit as of January 31, 2003 was $1,225,000.

The Company issued a standby letter of credit in the amount of $374,000 during the first quarter to secure performance and payment under a contract entered into with a municipal customer. The letter of credit is secured by $374,000 in municipal securities and expires on June 15, 2003.

The Company received notification from Nasdaq in May 2002 that the Company was not in compliance with the minimum bid price requirements for continued listing on the Nasdaq National Market. In August 2002, the Company applied for, and was granted permission to transfer to the Nasdaq SmallCap Market. The Company believes, based upon current Nasdaq guidelines, that we effectively have until May 2003 to regain compliance with the minimum bid price requirement for continued listing.

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.

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 fiscal year 2001, the Company adopted a restructuring plan which involved 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 were completed by July 31, 2002. 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, in light of the current economic environment, additional reorganization of the Company's operations may 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, 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.

Our communications servers 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, 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, 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, Nortel Networks, Aspect Communications, and Rockwell;
- data communication equipment suppliers, such as Cisco Systems and 3COM;
- email management and web center software suppliers, such as eGain, Kana Communications, and Live Person;
- and voice communications equipment suppliers, such as Nortel Networks, Avaya, Mitel, NEC, Toshiba, 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 expand our indirect sales channel to sell our eQueue products, our ability to generate revenue would be harmed.

We sell our eQueue 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 expand this new indirect sales channel. In addition, 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 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.

We face many risks from expanding into foreign markets.

The Company expects to increase sales to customers outside of the United States and establish additional distribution channels in Asia. However, foreign markets for our products may develop more slowly than currently anticipated. eOn may not be able to successfully establish international distribution channels, or may not be able to hire the additional personnel necessary to support such distribution channels.

Our future results could be harmed by economic, political, regulatory and other risks associated with international sales and operations.

Because our growth initiatives include expansion into foreign markets, we are subject to the risks of conducting business outside of the United States, including:

- changes in a specific country's or region's political or economic conditions;
- trade protection measures and import or export licensing requirements;
- potentially negative consequences from changes in tax laws;
- difficulty in managing widespread sales and customer service operations; and
- less effective protection of intellectual property.

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 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, 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 ACT 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 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 February 28, 2003, our executive officers, directors and principal stockholders and their affiliates beneficially owned 5,543,732 shares, or 44.3% 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.

RECENT ACCOUNTING PRONOUNCEMENTS

In July 2001, the FASB issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for under the purchase method only and that certain acquired intangible assets in a business combination be recognized as assets apart from goodwill. SFAS No.

142 requires that ratable amortization of goodwill be replaced with periodic tests of the goodwill's impairment and that intangible assets other than goodwill should be amortized over their useful lives. Management adopted SFAS No. 142 on August 1, 2001. See Footnote 5 for more information.

In July 2002, the FASB issued SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, which requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The Company does not expect the adoption of SFAS No. 146 to have a significant impact on the Company's future results of operations or financial position.

ITEM 3. QUALITATIVE AND QUANTITATIVE DISCLOSURE ABOUT MARKET RISK.

The majority 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.

ITEM 4. DISCLOSURE CONTROLS AND PROCEDURES

The Chief Executive Officer and the Chief Financial Officer of eOn (its principal executive officer and principal financial officer, respectively) have concluded, based on their evaluation of the design and operation of eOn's disclosure controls and procedures as of a date within 90 days prior to the date of the filing of this Form 10-Q, that eOn's disclosure controls and procedures are effective to ensure that information required to be disclosed by eOn in the reports filed or submitted by it under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms; and include controls and procedures designed to ensure that information required to be disclosed by eOn in such reports is accumulated and communicated to eOn's management, including the Chief Executive Officer and the Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

There were no significant changes in eOn's internal controls or in other factors that could significantly affect these controls subsequent to the date of such evaluation.

PART II – OTHER INFORMATION

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

The Company held the 2002 Annual Meeting of Stockholders on December 19, 2002 at our corporate headquarters. At that meeting, a majority of stockholders voted to elect W. Frank King (9,999,237 votes for, 442,894 votes withheld) to serve as director for a term of three years. Stephen R. Bowling, Frederick W. Gibbs, W. Frank King, and David S. Lee are continuing directors who were not up for election at the meeting.

In addition, stockholders ratified the appointment of Deloitte & Touche LLP (10,149,759 votes for, 288,505 votes against, 3,867 abstentions) as our independent auditors for the fiscal year ending July 31, 2003.

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

(A) Exhibits.

Exhibit No.	Description
99.1	Certification of Chief Executive Officer and Chief Financial Officer under 18 U.S.C. Section 1350

(B) Reports On Form 8-K.

On December 11, 2002, the Company filed with the Securities and Exchange Commission a report on Form 8-K disclosing the appointment of Frederick W. Gibbs to fill the vacancy created by the resignation of Jenny Hsui Theleen from the Board of Directors.

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 17, 2003

/s/ LANNY N. LAMBERT

Lanny N. Lambert
Vice President, Chief Financial Officer
(Duly Authorized Officer, Principal Financial and Accounting Officer)

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

I, Troy E. Lynch, certify that:

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

2. Based on my knowledge, this quarterly 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 quarterly report;

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

4. The Registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

   a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

   b) evaluated the effectiveness of the Registrant’s disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the “Evaluation Date”); and

   c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant’s other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant’s auditors and the audit committee of Registrant’s board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant’s ability to record, process, summarize and report financial data and have identified for the Registrant’s auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal controls; and

6. The Registrant’s other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

/s/ TROY E. LYNCH

Troy E. Lynch
Chief Executive Officer

I, Lanny N. Lambert, certify that:

1. I have reviewed this quarterly report on Form 10-Q of eOn Communications Corporation ("Registrant");

2. Based on my knowledge, this quarterly 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 quarterly report;

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

4. The Registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Registrant and have:

    a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

    b) evaluated the effectiveness of the Registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

    c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The Registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the Registrant's auditors and the audit committee of Registrant's board of directors (or persons performing the equivalent function):

    a) all significant deficiencies in the design or operation of internal controls which could adversely affect the Registrant's ability to record, process, summarize and report financial data and have identified for the Registrant's auditors any material weaknesses in internal controls; and

    b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal controls; and

6. The Registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 17, 2003

/s/ LANNY N. LAMBERT

Lanny N. Lambert
Chief Financial Officer

Exhibit 99.1

CERTIFICATIONS OF PERIODIC REPORT
PURSUANT TO SECTION 906 OF SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report on Form 10-Q of eOn Communications Corporation (“Registrant”) I, Troy E. Lynch, Chief Executive Officer of Registrant, certify, pursuant to Section 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: March 17, 2003

/s/ TROY E. LYNCH

Troy E. Lynch
Chief Executive Officer

In connection with this quarterly report on Form 10-Q of eOn Communications Corporation (“Registrant”) I, Lanny N. Lambert, Chief Financial Officer of Registrant, certify, pursuant to Section 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: March 17, 2003

/s/ LANNY N. LAMBERT

Lanny N. Lambert
Chief Financial Officer