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 October 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

(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: 12,366,785 shares of Common Stock, $.001 par value, as of November 30, 2003.

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EON COMMUNICATIONS CORPORATION
FORM 10-Q
QUARTER ENDED OCTOBER 31, 2003

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EON COMMUNICATIONS CORPORATION
PART I - FINANCIAL INFORMATION

ITEM 1. CONDENSED FINANCIAL STATEMENTS

eOn Communications Corporation
Condensed Balance Sheets
October 31, 2003 and July 31, 2003
(Dollars in thousands)

	October 31, 2003 (unaudited)	July 31, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,302	$ 3,221
Marketable securities	4,200	4,200
Trade accounts receivable, net of allowance of $638 and $689, respectively	3,650	2,849
Inventories	1,806	1,879
Other current assets	96	134
Total current assets	13,054	12,283
Property and equipment, net	1,058	1,149
Intangible assets, net	1	2
Total	$ 14,113	$ 13,434
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 1,670	$ 1,240
Payable to affiliate	72	121
Note payable – current	447	613
Accrued expenses and other	2,094	1,996
Total current liabilities	4,283	3,970
Commitments and contingencies (see Footnote 7)	—	—
Stockholders' equity:		
Common stock	12	12
Additional paid-in capital	53,483	53,447
Treasury stock	(1,502)	(1,502)
Accumulated deficit	(42,163)	(42,493)
Total stockholders' equity	9,830	9,464
Total	$ 14,113	$ 13,434

See notes to condensed financial statements.

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eOn Communications Corporation
Condensed Statements of Operations (Unaudited)
For the Three Months ended October 31, 2003 and 2002
(Dollars in thousands, except per share data)

	Three Months Ended October 31,	
	2003	2002
Net revenue	$ 5,039	$ 3,555
Cost of revenues	2,100	1,770
Gross profit	2,939	1,785
Operating expenses:		
Selling, general, and administrative	1,918	2,300
Research and development	676	747
Total operating expenses	2,594	3,047
Income (loss) from operations	345	(1,262)
Interest income	(16)	(37)
Interest expense	9	9
Other expense (income), net	22	28
Income (loss) before income tax expense	330	(1,262)
Income tax expense	—	—
Net income (loss)	$ 330	$ (1,262)
Net income (loss) per common share		
Basic and diluted	$ 0.03	$ (0.10)

See notes to condensed financial statements

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

	Three Months Ended October 31, 2003	Three Months Ended October 31, 2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 330	$ (1,262)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	164	182
Changes in net assets and liabilities (net of effects of discontinued operations):		
Trade accounts receivable	(801)	(88)
Inventories	73	(54)
Other current assets	38	(160)
Trade accounts payable	430	434
Receivable/payable to affiliate	(49)	27
Accrued expenses and other	98	(124)
Accrued special charges	—	(55)
Net cash provided by (used in) operating activities	283	(1,100)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(72)	(90)
Purchases of marketable securities	—	(1,500)
Sales of marketable securities	—	1,710
Net cash provided by (used in) investing activities	(72)	120
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of note payable	(166)	(167)
Purchases of treasury stock	—	(3)
Proceeds from ESPP and stock option exercises	36	8
Net cash used in financing activities	(130)	(162)
Net increase (decrease) in cash and cash equivalents	81	(1,142)
Cash and cash equivalents, beginning of period	3,221	2,682
Cash and cash equivalents, end of period	$ 3,302	$ 1,540

See notes to condensed financial statements.

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

1. BASIS OF PRESENTATION

The accompanying unaudited condensed 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 October 31, 2003 and for all periods presented.

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 condensed financial statements be read in conjunction with the financial statements and notes thereto as of July 31, 2003 and 2002 and for each of the three years in the period ended July 31, 2003, which are included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

In November 2002, the Emerging Issues Task force ("EITF") reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement's consideration should be allocated among separate units. The pronouncement is effective for the Company for its fiscal year beginning August 1, 2003. The adoption of EITF Issue 00-21 did not have a material impact on the Company's results of operations or financial position.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure ("SFAS 148")*. SFAS 148 amends Statement No. 123, *Accounting for Stock-Based Compensation* ("SFAS 123"), to provide alternative methods for voluntary transition to SFAS 123's fair value method of accounting for stock-based employee compensation. SFAS 148 also requires disclosure of the effects of an entity's accounting policy with respect to stock-based employee compensation on reported net earnings (loss) and earnings (loss) per share in annual and interim financial statements. The provisions of SFAS 148 are effective in fiscal years beginning after December 15, 2002. The adoption of SFAS 148 did not have a material impact on the Company's results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 ("FIN 46"), *Consolidation of Variable Interest Entities.* In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The adoption of FIN 46 did not have a material impact on the Company's results of operations of financial position.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 149 ("SFAS 149"), *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirely, or as hybrid instruments with debt host contracts and embedded derivative features. SFAS 149 is effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and as such, SFAS 150 represents a significant change in practice in the accounting for a number of mandatory redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's results of operations or financial condition.

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In July 2003, the EITF reached consensus regarding EITF Issue 03-5, *Applicability of AICPA Statement of Position 97-2, Software Revenue Recognition, to nonsoftware deliverables*. The consensus addresses whether nonsoftware deliverables in a multiple-element arrangement that includes software that is more than incidental to the products or services as a whole should be within the scope of SOP 97-2, *Software Revenue Recognition*. The pronouncement is effective prospectively for arrangements entered into after the beginning of an entity's next reporting period beginning after August 13, 2003. The Company is in the process of evaluating what impact, if any, this pronouncement will have on the Company's results of operations or financial position.

Stock Compensation Plans

At April 30, 2003, the Company had three stock-based compensation plans for employees and an Employee Stock Purchase Plan (ESPP), which are more fully described in the Company's Annual Report on Form 10-K for the year ended July 31, 2003. The Company accounts for those plans under the intrinsic value method, which follows the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. No stock-based employee compensation cost is reflected in net income, as all options granted under the stock compensation plans had an exercise price equal to or greater than the market value of the underlying common stock on the grant date. Further, the ESPP is a noncompensatory plan under APB Opinion No. 25, and, as such, no compensation cost was recognized with respect to the ESPP.

The following table illustrates the effect on net income (loss) and net income (loss) per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation:

	Three Months Ended October 31	
	2003	**2002**
	(Thousands of Dollars, excluding per share data)	
Net income (loss) as reported	$ 330	$ (1,262)
Add: Stock-based compensation, as reported	—	—
Deduct: Total stock-based compensation determined under fair value based method for all awards, net of tax	(127)	(249)
Pro forma net income (loss)	$ 203	$ (1,511)
Net income (loss) per share – basic and diluted:		
Net income (loss) per share – as reported	$ 0.03	$ (0.10)
Net income (loss) per share – pro forma	$ 0.02	$ (0.13)

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. Generally, revenue is recognized (1) upon shipment for equipment and software, (2) as work is performed for professional services, and (3) in equal periodic amounts over the term of the contract for software and hardware maintenance. The Company 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. EARNINGS (LOSS) PER SHARE

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

	Three Months Ended October 31,	
	2003	2002
	(In thousands, except per share data)	
Basic income (loss) per share:		
Net income (loss)	$ 330	$ (1,262)
Weighted average shares outstanding	12,231	12,049
Basic income (loss) per share	$ 0.03	$ (0.10)
Diluted income (loss) per share:		
Net income (loss)	$ 330	$ (1,262)
Weighted average shares:		
Outstanding	12,231	12,049
Dilutive effect of stock options	554	—
Weighted average shares – diluted	12,785	12,049
Income (loss) from operations per share	$ 0.03	$ (0.10)

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 682,161 and 1,778,611 options excluded for the periods ending October 31, 2003 and 2002, respectively.

4. INVENTORIES

Inventories consist of the following:

	Oct 31, 2003	July 31, 2003
	(In thousands)	
Raw materials and purchased components	$ 660	$ 392
Finished goods	1,443	1,770
Warranty reserve	(297)	(283)
Total inventories	$1,806	$1,879

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5. 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 three-month reporting period was as follows:

	Three Months Ended October 31,	
	2003	2002
	(in thousands)	
Beginning balance	$ 283	$ 199
Warranty cost incurred	(62)	(32)
Accruals for warranties issued during the period	76	76
Accrual related to pre-existing warranties (including changes in estimates)	—	—
	$ 297	$ 243

6. CHANGES IN STOCKHOLDERS' EQUITY

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

(In thousands, except share data)

	Common Stock		Additional Paid-in Capital	Treasury Stock		Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount		Shares	Amount		
Balance at July 31, 2003	12,853,212	$ 12	$ 53,447	(676,900)	$(1,502)	$ (42,493)	$ 9,464
Net income and comprehensive income	—	—	—	—	—	330	330
Issuance of stock under equity incentive plans	197	—	—	—	—	—	—
Issuance of common stock under employee stock plan	94,009	—	36	—	—	—	36
Balance at October 31, 2003	12,947,418	$ 12	$ 53,483	(676,900)	$(1,502)	$ (42,163)	$ 9,830

7. COMMITMENTS AND CONTINGENCIES

At October 31, 2003, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $1,712,000.

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 October 31, 2003 was $700,000.

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

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8. EQUITY INCENTIVE PLANS

The status of the Company's stock option plans since August 1, 2003 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, August 1, 2003	1,824,053	$ 3.66
Granted	18,000	2.61
Exercised	(197)	0.53
Cancelled	(10,154)	2.57
Options outstanding, October 31, 2003	1,831,702	$ 3.65
Options exercisable, October 31, 2003	1,237,293	$ 4.64
Exercise price range	$0.24-$24.25	
Options available for grant, October 31, 2003	717,465	

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 condensed financial statements and the notes included thereto.

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.
- Deferred Taxes – We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Because of substantial losses in prior years, primarily during the years 2000 through 2002, the Company has available net operating loss ("NOL") carryforwards of $17.6 million.

  Accounting principles generally accepted in the United States require the recording of a valuation allowance against the net deferred tax asset associated with this NOL and other timing differences if it is "more likely than not" that the Company will not be able to utilize the NOL to offset future taxes. Due to the size of the NOL carryforward in relation to the Company's taxable income in recent years and to the continuing uncertainties surrounding future earnings, management has not recognized any of its net deferred tax asset. Because this asset has been offset by a valuation allowance, the Company currently provides for income taxes only to the extent of expected cash payments of taxes, primarily state income taxes, for current income.

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

Three Months Ended October 31, 2003 and 2002

Net Revenues. Total revenues increased 41.7% to $5.0 million in the quarter ended October 31, 2003 from $3.6 million in the quarter ended October 31, 2002. The increase from Q1 2002 to Q1 2003 resulted primarily from increased sales of our eQueue product of $1.3 million and an increase in Millennium revenues of $0.1 million. The large increase in eQueue sales reflected significant revenues from our direct sales channel 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 64.7% to $2.9 million in the quarter ended October 31, 2003 from $1.8 million in the quarter ended October 31, 2002, primarily due to the higher level of eQueue revenues. Gross margin increased to 58.3% in the quarter ended October 31, 2003 from 50.2% in the quarter ended October 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 14.9% to $2.6 million in the quarter ended October 31, 2003, from $3.0 million in the quarter ended October 31, 2002. The decrease was primarily due to reductions in personnel and associated overhead costs during the preceding year from the Company's cost-cutting initiatives.

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 $0.7 million in the quarters ended October 31, 2003 and 2002.

Interest and other income and expense. Interest income was $16 thousand in the current quarter, as compared to $37 thousand in the quarter ended October 31, 2002. The decrease was due to lower interest rates and a lower level of investments in marketable securities. Interest expense was $9 thousand in both the current quarter and the prior year quarter, resulting entirely from interest on the note payable associated with the termination of the lease on the Memphis facility. Other income and expense was $22 thousand in the current quarter and $28 thousand in the prior year period.

LIQUIDITY AND CAPITAL RESOURCES

As of October 31, 2003, we had cash and cash equivalents of $3.3 million, $4.2 million in short term investments ($0.7 million of which secure outstanding letters of credit), and a working capital balance of $8.8 million. Our short term investments are primarily invested in taxable auction rate securities with frequent rate resets.

Our operating activities resulted in a net cash inflows of $0.3 million in three months ended October 31, 2003 and a net cash outflow of $1.1 million in the three months ended October 31, 2002. The net operating cash inflow for the current period was primarily the result of our net income (adjusted for non-cash items) and increases in accounts payable and accrued expenses, offset by an increase in accounts receivable. The net operating cash outflow for the prior period was primarily the result our operating loss (adjusted for non-cash items).

Our investing activities resulted in a cash outflow of $0.1 million for the three months ended October 31, 2003, and a cash inflow of $0.1 million for the three months ended October 31, 2002. Cash used in investing activities in the current period consisted entirely of $0.1 million in capital expenditures. Cash provided by investing activities for the period ended October 31, 2002 consisted primarily of net sales of $0.2 million in marketable securities, offset by purchases of property and equipment of $0.1 million.

Our financing activities have resulted in cash outflows of $0.1 million and $0.2 million for the three months ended October 31, 2003 and 2002, respectively. Cash used in financing activities in the current period consisted primarily of payments against our outstanding note payable.

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 October 31, 2003, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $1,712,000.

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 October 31, 2003 was $700,000.

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

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.

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 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 sustain our Millennium voice switching platform revenues, our business, operating results and financial condition could be harmed.

We may not be able to 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 October 31, 2003, our executive officers, directors and principal stockholders and their affiliates beneficially owned 3,975,962 shares, or 31.0% 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.

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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 November 2002, the Emerging Issues Task force (“EITF”) reached a consensus regarding EITF Issue 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*. The consensus addresses not only when and how an arrangement involving multiple deliverables should be divided into separate units of accounting but also how the arrangement’s consideration should be allocated among separate units. The pronouncement is effective for the Company for its fiscal year beginning August 1, 2003. The adoption of EITF Issue 00-21 did not have a material impact on the Company’s results of operations or financial position.

In December 2002, the FASB issued Statement of Financial Accounting Standards No. 148, *Accounting for Stock-Based Compensation – Transition and Disclosure (“SFAS 148”)*. SFAS 148 amends Statement No. 123, *Accounting for Stock-Based Compensation* (“SFAS 123”), to provide alternative methods for voluntary transition to SFAS 123’s fair value method of accounting for stock-based employee compensation. SFAS 148 also requires disclosure of the effects of an entity’s accounting policy with respect to stock-based employee compensation on reported net earnings (loss) and earnings (loss) per share in annual and interim financial statements. The provisions of SFAS 148 are effective in fiscal years beginning after December 15, 2002. The adoption of SFAS 148 did not have a material impact on the Company’s results of operations or financial position.

In January 2003, the FASB issued FASB Interpretation No. 46 (“FIN 46”), *Consolidation of Variable Interest Entities*. In general, a variable interest entity is a corporation, partnership, trust, or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. FIN 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The adoption of FIN 46 did not have a material impact on the Company’s results of operations of financial position.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 149 (“SFAS 149”), *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS 149 is intended to result in more consistent reporting of contracts as either freestanding derivative instruments subject to Statement 133 in its entirely, or as hybrid instruments with debt host contracts and embedded derivative features. SFAS 149 is effective for contracts entered into or modified after

June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations or financial condition.

In May 2003, the FASB issued Statement of Financial Accounting Standards No. 150 ("SFAS 150"), *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity*. SFAS 150 requires certain financial instruments that embody obligations of the issuer and have characteristics of both liabilities and equity to be classified as liabilities. Many of these instruments previously were classified as equity or temporary equity and as such, SFAS 150 represents a significant change in practice in the accounting for a number of mandatory redeemable equity instruments and certain equity derivatives that frequently are used in connection with share repurchase programs. SFAS 150 is effective for all financial instruments created or modified after May 31, 2003, and to other instruments at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material effect on the Company's results of operations or financial condition.

In July 2003, the EITF reached consensus regarding EITF Issue 03-5, *Applicability of AICPA Statement of Position 97-2, Software Revenue Recognition, to nonsoftware deliverables*. The consensus addresses whether nonsoftware deliverables in a multiple-element arrangement that includes software that is more than incidental to the products or services as a whole should be within the scope of SOP 97-2, *Software Revenue Recognition*. The pronouncement is effective prospectively for arrangements entered into after the beginning of an entity's next reporting period beginning after August 13, 2003. The Company is in the process of evaluating what impact, if any, this pronouncement will have on the Company's 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

Evaluation of disclosure controls and procedures. Based on our management's evaluation (with the participation of our principal executive officer and principal financial officer), as of the end of the period covered by this report, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, (the "Exchange Act")) are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

Changes in internal control over financial reporting. There was no change in our internal control over financial reporting during our fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II - OTHER INFORMATION

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

(A) Exhibits.

Exhibit No.	Description
31.1	Officers’ Certification of Periodic Report pursuant to Section 302 of Sarbanes-Oxley Act of 2002
32.1	Officers’ Certification of Periodic Report pursuant to Section 906 of Sarbanes-Oxley Act of 2002

(B) Reports On Form 8-K.

During the first quarter ended October 31, 2003, the Company reported the following event on Form 8-K:

Date Filed or Furnished	Item No(s).	Description
August 28, 2003	7 and 12	Press release reporting financial results for the quarter ended July 31, 2003

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: December 15, 2003

/s/ STEPHEN R. BOWLING

Stephen R. Bowling
Vice President, Chief Financial Officer
(Duly Authorized Officer, Principal Financial and Accounting Officer)

Exhibit 31.1

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

I, David S. Lee, certify that:

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

2. Based on my knowledge, this annual 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 the Registrant as of, and for, the periods presented in this quarterly report;

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

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

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

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

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

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

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

Date: December 15, 2003

/s/ DAVID S. LEE

David S. Lee
Chief Executive Officer

I, Stephen R. Bowling, certify that:

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

2. Based on my knowledge, this annual 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 the Registrant as of, and for, the periods presented in this quarterly report;

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

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

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

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

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

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

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

Date: December 15, 2003

/s/ STEPHEN R. BOWLING

Stephen R. Bowling
Chief Financial Officer

Exhibit 32.1

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, David S. Lee, 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: December 15, 2003

/s/ DAVID S. LEE

David S. Lee
Chief Executive Officer

In connection with this quarterly report on Form 10-Q of eOn Communications Corporation ("Registrant") I, Stephen R. Bowling, 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: December 15, 2003

/s/ STEPHEN R. BOWLING

Stephen R. Bowling
Chief Financial Officer