UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

(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, 2006.

OR

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

Commission File Number: 000-26399

eOn Communications Corporation

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**62-1482176** **(I.R.S. Employer Identification Number)**
4105 Royal Drive NW, Suite 100, Kennesaw, Georgia **(Address of principal executive offices)**	**30144** **(Zip code)**

(770) 423-2200
(Registrant's telephone number, including area code)

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 and 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 by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

13,402,667 shares of common stock, $0.01 par value, were outstanding as of February 28, 2006.

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EON COMMUNICATIONS CORPORATION
FORM 10-QSB
QUARTER ENDED JANUARY 31, 2006

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PART I - FINANCIAL INFORMATION

Item 1. – *Financial Statements*

EON COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share and per share information)

	January 31, 2006 (unaudited)	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 694	$ 870
Marketable securities	2,800	3,600
Trade accounts receivable, net of allowance of $569 and $1,106, respectively	3,212	2,145
Trade accounts receivable - related party	48	19
Proceeds receivable from sale of discontinued operations	1,840	—
Notes receivable - related party	300	—
Inventories	2,210	2,155
Prepaid and other current assets	309	206
Current assets of discontinued operations	—	7,408
Total current assets	11,413	16,403
Property and equipment, net	361	434
Goodwill	21	21
Non-current assets of discontinued operations	—	271
Total assets	$ 11,795	$ 17,129
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 713	$ 703
Trade accounts payable - related party	79	157
Deferred acquisition payment	—	914
Accrued expenses and other	1,782	1,603
Current liabilities of discontinued operations	—	4,952
Total current liabilities	2,574	8,329
Minority interest of discontinued operations	—	1,145
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred stock, $0.001 par value, (10,000,000 shares authorized, no shares issued and outstanding)	—	—
Common stock, $0.001 par value (50,000,000 shares authorized, 14,079,567 and 13,579,957 shares issued, respectively)	14	13
Additional paid-in capital	54,969	54,455
Treasury stock, at cost (676,900 shares)	(1,502)	(1,502)
Accumulated deficit	(44,260)	(45,372)
Accumulated other comprehensive income	—	61
Total stockholders' equity	9,221	7,655
Total liabilities and stockholders' equity	$ 11,795	$ 17,129

See accompanying notes to the condensed consolidated financial statements.

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EON COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share information)
(Unaudited)

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
REVENUE				
Net revenue	$ 2,964	$ 2,553	$ 6,136	$ 7,124
COST OF REVENUE				
Cost of revenue	1,024	959	2,084	3,026
Gross profit	1,940	1,594	4,052	4,098
OPERATING EXPENSE				
Selling, general and administrative	1,176	1,537	2,436	3,105
Research and development	577	775	1,258	1,641
Total operating expense	1,753	2,312	3,694	4,746
Income (loss) from continuing operations	187	(718)	358	(648)
Interest income	33	23	67	44
Other income (expense), net	(40)	19	(64)	10
Income (loss) from continuing operations before income taxes	180	(676)	361	(594)
Income tax expense	—	—	—	—
Income (loss) from continuing operations after income taxes	180	(676)	361	(594)
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of tax and minority interest of $162, $164, $289 and $181, respectively	149	148	256	164
Gain on disposal of discontinued operations, net of tax of $20	278	—	278	—
Income from discontinued operations	427	148	534	164
Income (loss) before extraordinary item	607	(528)	895	(430)
EXTRAORDINARY ITEM				
Extraordinary gain, net of income taxes of $0	—	—	217	—
Net income (loss)	$ 607	$ (528)	$ 1,112	$ (430)
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$ 607	$ (528)	$ 1,112	$ (430)
Foreign currency translation adjustment	—	$ —	8	$ —
Comprehensive income (loss)	$ 607	$ (528)	$ 1,120	$ (430)
Weighted average shares outstanding:				
Basic	13,402	12,836	13,291	12,898
Diluted	13,469	12,836	13,356	12,898
Basic income (loss) per share:				
From continuing operations after income taxes	$ 0.02	$ (0.05)	$ 0.03	$ (0.04)
From discontinued operations, net of tax and minority interest	0.03	0.01	0.04	0.01
From extraordinary gain, net of income taxes	—	—	0.01	—
Basic income (loss) per share	$ 0.05	$ (0.04)	$ 0.08	$ (0.03)
Diluted income (loss) per share:				
From continuing operations after income taxes	$ 0.02	$ (0.05)	$ 0.03	$ (0.04)
From discontinued operations, net of tax and minority interest	0.03	0.01	0.04	0.01
From extraordinary gain, net of income taxes	—	—	0.01	—
Diluted income (loss) per share	$ 0.05	$ (0.04)	$ 0.08	$ (0.03)

See accompanying notes to the condensed consolidated financial statements.

EON COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended January 31, 2006	Six Months Ended January 31, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,112	$ (430)
Change in operating assets and liabilities of discontinued operations	(173)	148
Minority interest of discontinued operations	217	141
Extraordinary gain	(217)	—
Gain on disposal of discontinued operations	(278)	—
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	166	243
Provision of allowance for doubtful accounts	111	—
Loss on disposal of fixed assets	16	—
Changes in net assets and liabilities		
Trade accounts receivable	(1,178)	342
Inventories	(55)	(254)
Prepaid and other current assets	(103)	18
Trade accounts payable	(31)	(92)
Trade accounts receivable/payable - related party	(107)	27
Accrued expenses and other	(27)	(192)
Net cash used in operating activities	(547)	(49)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(109)	(76)
Disposal of property and equipment	—	3
Notes receivable - related party	(300)	—
Sale of marketable securities	800	—
Cash used in business acquisition	—	(40)
Investing cash flows from discontinued operations	(44)	18
Net cash provided by (used in) investing activities	347	(95)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan and stock option exercises	24	29
Financing activities from discontinued operations	—	(471)
Net cash provided by financing activities	24	(442)
Net decrease in cash and cash equivalents	(176)	(586)
Cash and cash equivalents, beginning of period	870	1,772
Cash and cash equivalents, end of period	$ 694	$1,186

See accompanying notes to the condensed consolidated financial statements.

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EON COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three and Six Months Ended January 31, 2006 and 2005

1. Basis of Presentation

The accompanying unaudited consolidated 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 January 31, 2006 and for all periods presented.

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of the Company's majority owned subsidiaries Cortelco Shanghai Telecom Equipment Company ("Cortelco Shanghai") through December 31, 2005, the date of disposal, and Aelix Systems Incorporated ("Aelix"). All significant inter-company balances and transactions have been eliminated in consolidation.

On June 1, 2004, eOn acquired a controlling interest (54.14%) in Cortelco Shanghai, a provider of fiber optic transmission equipment, data communications systems, and network management software in China. On December 31, 2005, the Company sold its 54.14% interest in Cortelco Shanghai. Accordingly, the Company's consolidated financial statements reflect the results of Cortelco Shanghai as discontinued operations.

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, 2005 and 2004 and for each of the three years in the period ended July 31, 2005, which are included in the Annual Report on Form 10-K filed with the Securities and Exchange Commission.

2. Stock Compensation Plans

At January 31, 2006, 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, 2005. 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 non-compensatory 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 loss and net 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 January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
Net income (loss), as reported	$ 607	$ (528)	$1,112	$ (430)
Deduct: Total stock-based compensation determined under fair value based method for all awards, net of tax	(57)	(92)	(115)	(184)
Net income (loss), pro forma	$ 550	$ (620)	$ 997	$ (614)
Net income (loss) per share , basic				
As reported	$ 0.05	$ (0.04)	$ 0.08	$(0.03)
Pro forma	$ 0.04	$ (0.05)	$ 0.08	$(0.05)
Net income (loss) per share , diluted				
As reported	$ 0.05	$ (0.04)	$ 0.08	$(0.03)
Pro forma	$ 0.04	$ (0.05)	$ 0.07	$(0.05)

The fair value of shares and options issued pursuant to our stock-based compensation plans at the grant date were calculated using the Black-Scholes option pricing model as prescribed by SFAS No. 123 generally using the following weighted average assumptions; dividend yield 0.0%, expected volatility 100%, average risk free interest rate approximately 4.50%, and expected life in years 7.

The Company has elected to follow Accounting Principles Board Opinion No. 25 (“APB 25”), Accounting for Stock issued to Employees and related interpretations in accounting for stock options. Under “fixed plan” accounting in APB 25, because the exercise price of the Company’s options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company has adopted pro forma disclosures of SFAS 123.

In December 2004, the FASB issued SFAS No. 123(R) Share Based Payment, which addresses the accounting for share-based payment transactions. SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for and recognized in the statement of operations based on their fair value. SFAS No. 123(R) will be effective for public companies that file as small business issuers as of the beginning of the first annual reporting period that begins after December 15, 2005. Management is evaluating the provisions of this standard. Depending upon the number and terms of options that may be granted in future periods, the implementation of this standard could have a material impact on the Company’s financial position and results of operations.

3. Revenue Recognition

Revenues from our products are recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectibility is reasonably assured. Generally, revenue is recognized (1) upon shipment for equipment and software, (2) as work is performed for professional services, and (3) in equal periodic amounts over the term of the contract for software and hardware maintenance. The Company 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.”

4. Cortelco Shanghai, Extraordinary Gain and Discontinued Operations

On June 1, 2004, eOn acquired a controlling interest in Cortelco Shanghai Telecom Equipment Company (“Cortelco Shanghai”), a provider of fiber optic transmission equipment, data communications systems, and network management software in China.

Under the terms of the agreement, eOn acquired all of the stock of Cortelco China Corp, a California corporation that owned a 54.14% ownership interest in Cortelco Shanghai, from Cortelco Systems Holding Corporation (“CSHC”). At closing, CSHC received 157,167 shares of eOn common stock valued at $321,250. On October 21, 2005, the Company issued the remaining 471,501 shares valued at $490,361, as set forth in the purchase agreement. The value of the assets acquired exceeded the value of the stock issued therefore the Company realized an extraordinary gain on the purchase of $217,000 during the quarter ended October 31, 2005.

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During the quarter ended October 31, 2005, the Company committed to a plan to sell its 56.14% interest in Cortelco Shanghai. Accordingly, the results of operations of Cortelco Shanghai have been retroactively restated as discontinued operations pursuant to Statement of Financial Accounting Standards ("SAFS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In addition, the segment disclosures required by SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" have been omitted as the Company is operating in only one segment subsequent to the disposal of Cortelco Shanghai.

On December 31, 2005, the Company sold its 54.14% interest in Cortelco Shanghai to the 45.86% minority holder, Shanghai Fortune Telecommunication Technology Development Co. Ltd. ("Shanghai Fortune") and members of management of Cortelco Shanghai. On December 31, 2005, the Company gave operating control to the purchaser and maintains no continuing interest, operating involvement or risk of incidence of ownership in the business. Additionally, management of Cortelco Shanghai ceased to report to the Company's management and we do not have any other oversight or corporate governance responsibilities.

The Company recognized a gain on the disposal of discontinued operations of $278,000. The net sales proceeds of $1,800,000 and $40,000 in transaction costs paid on behalf of the purchaser have been recorded as a receivable as of January 31, 2006. Through March 17, 2006, proceeds of $1,798,000 have been received. The final payment representing a dividend for 2005 is expected to be received after Cortelco Shanghai files its tax return in April 2006.

Results of discontinued operations for the three and six months ended January 31, 2006 and 2005 follow (in thousands):

	Three Months Ended		Six Months Ended	
	January 31, 2006	January 31, 2005	January 31, 2006	January 31, 2005
REVENUE				
Net third party revenue	$ 1,526	$ 2,110	$ 3,662	$ 3,742
Net related party revenue	399	790	734	1,054
Total revenue	1,925	2,900	4,396	4,796
COST OF REVENUE				
Third party cost of revenue	1,285	1,550	3,146	2,946
Related party cost of revenue	209	635	279	840
Total cost of revenue	1,494	2,185	3,425	3,786
Gross profit	431	715	971	1,010
OPERATING EXPENSE				
Selling, general and administrative	136	435	451	712
Total operating expense	136	435	451	712
Income from continuing operations	295	280	520	298
Interest income	9	12	18	47
Other income, net	7	20	7	—
Income from continuing operations before income taxes	311	312	545	345
Income tax expense	(36)	(38)	(72)	(42)
Income from continuing operations before minority interest	275	274	473	303
Minority interest	(126)	(126)	(217)	(139)
Income from discontinued operations	$ 149	$ 148	$ 256	$ 164

5. Related Parties

The Company is affiliated with the following entities through common stockholder ownership:

- Cortelco Systems Holding Corporation ("CSHC");
- Cortelco International, Inc. ("CII", subsidiary of CSHC);
- Cortelco Canada ("CC", subsidiary of CSHC) and
- Spark Technology Corporation

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The following represents related party transactions (in thousands):

	Three Months Ended January 31,		Six Months Ended January 31,	
	2006	2005	2006	2005
Purchases from CSHC and subsidiaries	$ 236	$ 216	$ 381	$ 421

The following represents related party balances (in thousands):

	January 31, 2006	July 31, 2005
Trade receivables from Spark Technology Corporation	$ 48	$ 19
Trade accounts receivable - related party	$ 48	$ 19
Payable to CII	$ 72	$ 51
Payable to Spark Technology Corporation	7	106
Trade accounts payable - related party	$ 79	$ 157

Cortelco International, Inc. and Cortelco Systems Holding Corporation

Cortelco International, Inc. (“CII”) is a subsidiary of Cortelco Systems Holding Corporation (“CSHC”) and a supplier of Millenium and eQueue peripheral hardware. Accounts payable are paid on thirty to sixty day terms. The Company has had no significant transactions with CSHC.

Spark Technology Corporation

Aelix performs engineering development projects for Spark Technology Corporation (“Spark”), a California company that is wholly owned by David Lee, the Chief Executive Officer and majority shareholder of eOn. Aelix has incurred approximately $78,000 of expenses on behalf of Spark during the six months ended January 31, 2006 (net of approximately $29,000 incurred by Spark engineers on behalf of eOn). Included in Accounts Receivable – Related Party is $48,223 owed eOn and Aelix by Spark on January 31, 2006.

Cortelco Shanghai also performs engineering development projects for Spark. Cortelco Shanghai has incurred expenses of approximately $62,000 on behalf of Spark during the six months ended January 31, 2006, respectively. At January 31, 2006, Spark owed Cortelco Shanghai $64,000, which is included in assets of discontinued operations.

Spark deposited $211,000 with the Company in China to pay for Spark expenses. As of January 31, 2006, the balance of this deposit/prepayment is $1,907. This balance is included in the Company’s balance sheet as Cash and offset in Trade Accounts Payable – Related Party.

On October 28, 2005, the Company entered into a non-binding Letter of Intent (“LOI”) to acquire Spark Spark designs and markets accessories for wireless telephones. It recently announced Cellstik, a small memory device that allows users to easily backup, enter, edit and transfer their cell phone contacts. The LOI is subject to negotiation of a definitive agreement, approval by the eOn Board of Directors and shareholders, completion of due diligence process and various other conditions. Subject to fulfillment of the various conditions, eOn has agreed to a purchase price of up to 8,933,000 common shares of eOn stock. eOn has also agreed to loan Spark up to $300,000 during the period prior to closing.

In accordance with the LOI, the Company loaned Spark $200,000 and $100,000 on November 14, 2005 and January 18, 2006, respectively to fund operating expenses. As of January 31, 2006, the Company has recorded notes receivable of $300,000 on the balance sheet. The principal amount of these notes, plus unpaid accrued interest at a rate of 6% per annum, are due and payable on May 31, 2006, unless the Spark letter of intent is not closed prior to March 31, 2006 or the letter of intent is otherwise terminated prior to March 31, 2006, then Spark shall repay the full amount borrowed, plus interest, no later than 60 days after the termination of the letter of intent.

6. Inventories

Inventories consist of the following (in thousands):

	January 31, 2006	July 31, 2005
Raw materials and purchased components	$ 740	$ 743
Finished goods	1,470	1,412
Total inventories	$ 2,210	$2,155

7. Product Warranties

The Company generally provides customers a one year product warranty from the date of purchase. The Company estimates the costs of satisfying warranty claims based on analysis of past claims experience and provides for these future claims in the period that revenues are recognized. The cost of satisfying warranty claims, which approximates 2% of revenue, has historically been comprised of materials and direct labor costs. We perform quarterly evaluations of these estimates, and any changes in estimates, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

Information regarding the changes in the Company's aggregate product warranty accrual included in accrued expenses and other, for the six months ended January 31, 2006 and 2005 is as follows (in thousands):

	Six Months Ended January 31, 2006	Six Months Ended January 31, 2005
Beginning balance	$ 228	$ 300
Warranty cost incurred	(71)	(92)
Accrued warranty cost	49	122
Ending balance	$ 206	$ 330

8. Changes in Stockholders' Equity

The following represents the changes in stockholders' equity for the six months ended January 31, 2006 (in thousands, excluding share data):

	Common Stock		Additional Paid-In	Treasury Stock			Accumulated Other Comprehensive	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Accumulated Deficit	Income	Equity
Balance at July 31, 2005	13,579,957	$ 13	$ 54,455	(676,900)	$(1,502)	$ (45,372)	$ 61	$ 7,655
Net income	—	—	—	—	—	1,112	—	1,112
Translation adjustment	—	—	—	—	—	—	(61)	(61)
Issuance of common stock under employee stock purchase plan	28,109	—	24	—	—	—	—	24
Issuance of stock for deferred acquisition payment	471,501	1	490	—	—	—	—	491
Balance at January 31, 2006	14,079,567	$ 14	$ 54,969	(676,900)	$(1,502)	$ (44,260)	$ —	$ 9,221

9. Commitments and Contingencies

At January 31, 2006, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $690,000.

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.

10. Equity Incentive Plans

The status of the Company's stock option plans as of January 31, 2006 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, July 31, 2005	1,572,844	$ 4.27
Granted	—	—
Exercised	—	—
Cancelled	(50,316)	1.96
Options outstanding, January 31, 2006	1,522,528	$ 4.34
Options exercisable January 31, 2006	1,288,686	$ 4.65
Exercise price range	$0.28 -$24.25	
Options available for grant, January 31, 2006	603,267	

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.

On June 1, 2004, eOn acquired a controlling interest in Cortelco Shanghai Telecom Equipment Company ("Cortelco Shanghai"), a provider of fiber optic transmission equipment, data communications systems, and network management software in China.

Under the terms of the agreement, eOn acquired all of the stock of Cortelco China Corp, a California corporation that owned a 54.14% ownership interest in Cortelco Shanghai, from Cortelco Systems Holding Corporation ("CSHC"). At closing, CSHC received 157,167 shares of eOn common stock valued at $321,250. On October 21, 2005, the Company issued the remaining 471,501 shares valued at $490,361, as set forth in the purchase agreement. The value of the assets acquired exceeded the value of the stock issued therefore the Company realized an extraordinary gain on the purchase of $217,000 during the quarter ended October 31, 2005.

During the quarter ended October 31, 2005, the Company committed to a plan to sell its 56.14% interest in Cortelco Shanghai. Accordingly, the results of operations of Cortelco Shanghai have been retroactively restated as discontinued operations pursuant to Statement of Financial Accounting Standards ("SAFS") No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." In addition, the segment disclosures required by SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" have been omitted as the Company is operating in only one segment subsequent to the disposal of Cortelco Shanghai.

On December 31, 2005, the Company sold its 54.14% interest in Cortelco Shanghai to the 45.86% minority holder, Shanghai Fortune Telecommunication Technology Development Co. Ltd. (“Shanghai Fortune”) and members of management of Cortelco Shanghai. On December 31, 2005, the Company gave operating control to the purchaser and maintains no continuing interest, operating involvement or risk of incidence of ownership in the business. Additionally, management of Cortelco Shanghai ceased to report to the Company’s management and we do not have any other oversight or corporate governance responsibilities.

The Company recognized a gain on the disposal of discontinued operations of $278,000. The net sales proceeds of $1,800,000 and $40,000 in transaction costs paid on behalf of the purchaser have been recorded as a receivable as of January 31, 2006. Through March 17, 2006, proceeds of $1,798,000 have been received. The final payment representing a dividend for 2005 is expected to be received after Cortelco Shanghai files its tax return in April 2006.

Critical Accounting Policies and Estimates

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 3, “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, 2005.

Revenue Recognition

Revenues from our products are recognized only when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the price to the customer is fixed or determinable, and collectibility is reasonably assured. Generally, revenue is recognized (1) upon shipment for equipment and software, (2) as work is performed for professional services, and (3) in equal periodic amounts over the term of the contract for software and hardware maintenance. The Company 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.”

Product Warranties

We generally provide customers a one year product warranty from the date of purchase. We estimate the costs of satisfying warranty claims based on analysis of past claims experience and provide for these future claims in the period that revenue is recognized. The cost of satisfying warranty claims, which approximates 2% of revenue, has historically been comprised of materials and direct labor costs. 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 of and relationships with our customers, and we update our estimates on a monthly basis. Any changes in estimate, which can be significant, are included in earnings in the period in which the change in estimate occurs. During the quarter ended January 31, 2006, we wrote-off approximately $648,000 in accounts receivable which had been previously reserved. Accordingly, when the balances were written off, we simultaneously reduced our gross outstanding accounts receivable and the allowance for doubtful accounts.

Stock Compensation

The Company has elected to follow Accounting Principles Board Opinion No. 25 (“APB 25”), “Accounting for Stock issued to Employees” and related interpretations in accounting for stock options. Under “fixed plan” accounting in APB 25, because the exercise price of the Company’s options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The Company has adopted pro forma disclosures of SFAS 123.

In December 2004, the FASB issued SFAS No. 123(R) "Share Based Payment", which addresses the accounting for share-based payment transactions. SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions using APB 25, and generally requires instead that such transactions be accounted for and recognized in the statement of operations based on their fair value. SFAS No. 123(R) will be effective for public companies that file as small business issuers as of the beginning of the first annual reporting period that begins after December 15, 2005. Management is evaluating the provisions of this standard. Depending upon the number and terms of options that may be granted in future periods, the implementation of this standard could have a material impact on the Company's financial position and results of operations.

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 losses during the years 2000 through 2005, the Company has available net operating loss ("NOL") carry forwards of $20.1 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 carry forward 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 carry forward, management would record the estimated net realizable value of its deferred tax asset at that time. The Company would then provide for income taxes at a rate equal to its combined federal and state effective rates, which would approximate 39% under current tax rates. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause the provision for income taxes to vary significantly from period to period, although the Company's cash tax payments would remain unaffected until the benefit of the NOL is utilized.

Results of Operations

For the Three Months Ended January 31, 2006 compared to the Three Months Ended January 31, 2005

Net Revenue

Net revenue increased approximately 16% to $3.0 million for the three months January 31, 2006 compared to $2.6 million for the same period of the previous year. The increase reflects an increase in Millennium revenue of $0.2 million and an increase in eQueue revenue of $0.2 million over the same period of the previous year.

Cost of Revenue and Gross Profit

Cost of revenue is primarily comprised of purchases from our contract manufacturers and other suppliers and costs incurred for final assembly of our systems. Cost of revenue increased approximately 7% to $1.0 million for the three months ended January 31, 2006 from $0.9 million for the same period of the previous year, as a result of higher revenue.

eQueue gross profit increased $0.2 million and Millennium gross profit increased $0.1 million over the same period last year as a result of higher revenues and improved gross margin. Gross margin increased to approximately 65% for the three months ended January 31, 2006 compared with gross margin of approximately 62% for the same period of the previous year. This increase was primarily due to sales mix, as lower margin Millennium products represented a smaller portion of the total gross profit.

Selling, General and Administrative

Selling, general and administrative expense consists 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 approximately 23% to $1.2 million for the three months ended January 31, 2006, from $1.5 million for the same period of the previous year. The improvement reflects lower employee compensation (resulting from reductions in workforce), travel costs, professional fees and marketing expenses, partially offset by higher bad debt expense.

Research and Development

Research and development expense consists primarily of personnel and related facility costs for our engineering staff. Research and development expenses decreased approximately 26% to $0.6 million for the three months ended January 31, 2006 from $0.8 million for the same period of the previous year. The reduction primarily reflects reduced employee compensation resulting from shifting a portion of our engineering workforce from the United States to India.

Interest and other income and expense

Interest income was $33,000 for the three months ended January 31, 2006 compared to $23,000 for the same period of the previous year. The increase in interest income is a result of better returns on our short-term marketable securities due to the rise in interest rates over the previous year. Other expense was $40,000 for the quarter ended January 31, 2006 compared to other income of $19,000 for the same period of the previous year. Other expense for the three months January 31, 2006 reflects higher franchise taxes and a loss incurred to close down our Korean operations. Other income for the three months ended January 31, 2005 includes a reversal of a previously reserved balance established for a vendor who emerged successfully from bankruptcy.

For the Six Months Ended January 31, 2006 compared to the Six Months Ended January 31, 2005

Net Revenue

Net revenue decreased approximately 14% to $6.1 million for the six months January 31, 2006 compared to $7.1 million for the same period of the previous year. The decrease reflects a decrease in Millennium revenue of $1.1 million, partially offset by an increase in eQueue revenue of $0.1 million over the same period of the previous year.

Cost of Revenue and Gross Profit

Cost of revenue is primarily comprised of purchases from our contract manufacturers and other suppliers and costs incurred for final assembly of our systems. Gross profit decreased approximately 1% to $4.0 million for the six months ended January 31, 2006 from $4.1 million for the same period of the previous year, as a result of lower revenue, substantially offset by higher margins.

Millennium gross profit decreased $0.2 million partially offset by an increase in eQueue gross profit of $0.1 million over the same period last year. Gross margin increased to approximately 66% for the six months ended January 31, 2006 compared with gross margin of approximately 58% for the same period of the previous year. This increase was primarily due to sales mix, lower margin Millennium products represented a smaller portion of the total gross profit year over year.

Selling, General and Administrative

Selling, general and administrative expense consists 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 approximately 22% to $2.4 million for the six months ended January 31, 2006, from $3.1 million for the same period of the previous year. The improvement reflects lower salaries and benefits costs (resulting from reductions in workforce), travel costs, lower advertising and marketing expense, partially offset by higher bad debt expense.

Research and Development

Research and development expense consists primarily of personnel and related facility costs for our engineering staff. Research and development expenses decreased approximately 23% to $1.3 million for the six months ended January 31, 2006 from $1.6 million for the same period of the previous year. The reduction primarily reflects reduced employee compensation and travel resulting from shifting a portion of our engineering workforce from the United States to India.

Interest and other income and expense

Interest income was $67,000 for the six months ended January 31, 2006 compared to $44,000 for the same period of the previous year. The increase in interest income is a result of better returns on our short-term marketable securities due to the rise in interest rates over the previous year. Other expense was $64,000 for the six months ended January 31, 2006 compared to other income of $10,000 for the same period of the previous year. Other expense for the six months January 31, 2006 reflects higher franchise taxes and a loss incurred to close down our Korean operations. Other income for the six months ended January 31, 2005 includes a reversal of a previously reserved balance established for a vendor who emerged successfully from bankruptcy.

Liquidity and Capital Resources

As of January 31, 2006, we had cash and cash equivalents of $0.7 million, $2.8 million in short-term investments, and working capital 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 outflow of $0.5 million for the six months ended January 31, 2006 compared to a net cash outflow of $0.1 million for the same period of the previous year. The net operating cash outflow for the current period was primarily the result of net income, net of non cash items, partially offset by increased accounts receivable. The net operating cash provided for the prior year period was primarily the result of net loss, net of non cash items increased inventory and increased accrued expense, partially offset by reduced trade accounts receivable.

Our investing activities resulted in a net cash inflow of $0.3 million for the six months ended January 31, 2006 compared to a net cash outflow of $0.1 million for the same period of the previous year. Cash provided by investing activities for the six months ended January 31, 2006 were a result of sales of marketable securities, partially offset by capital expenditures. Cash used for the six months ended January 31, 2005 were a result of net capital expenditures.

Our financing activities resulted in a cash inflow of $24,000 for the six months ended January 31, 2006 compared to a cash outflow of $0.4 million for the same period of the previous year. Cash provided by financing activities in the current period and prior period were due to financing activities from discontinued operations partially offset by purchases under the Employee Stock Purchase Plan.

Liquidity

Since inception, the Company has financed its operations through debt financing and proceeds generated from public offerings of its common stock. The proceeds from these transactions have been used primarily to fund research and development costs, and selling, general and administrative expenses. Additionally, since inception, the Company has invested $4.5 million in capital expenditures.

The Company has incurred substantial net operating losses since inception and negative cash flows from operating activities through July 31, 2005 resulting in an accumulated deficit of $45.4 million. During fiscal year 2005, cash and cash equivalents and short-term investments decreased from $6.0 million to $4.5 million, primarily reflecting the operating loss incurred for fiscal year 2005.

The Company had income from continuing operations of $0.4 million for the six months ended January 31, 2006 versus a loss from continuing operations of $0.6 million for the same period in the prior year. As of January 31, 2006, the Company had $3.5 million in cash and cash equivalents and short-term investments in the United States available to fund operations. As of January 31, 2006, the Company also had a $1.8 million receivable from the sale of Cortelco Shanghai which is expected to be converted to cash during this next quarter.

The Company is dependent on available cash, short-term investments and operating cash flow to finance operations and meet its other capital needs. If such sources are not sufficient, alternative funding sources may not be available. The Company believes that cash on hand and short-term marketable securities plus the additional liquidity that it expects to generate from operations will be sufficient to cover its working capital and fund expected capital expenditures over at least the next twelve months.

Capital Resources

We have principally relied on the proceeds from equity and cash provided from operations as our primary sources of capital. While we do not currently anticipate the need to raise additional capital to meet our operating and capital expenditure requirements in the foreseeable future, our funding status is dependent on a number of factors influencing projections of operating cash flows, including those related to profit margins, controlling selling, general and administrative costs and research and development costs. Further, we believe that the cash and short-term investment securities on hand plus the additional liquidity that we expect to generate from operations will be sufficient to meet the cash requirements of the business including capital expenditures, cash interest payments and working capital needs for at least the next twelve months. Should actual results differ significantly from our current assumptions, our liquidity position could be adversely affected and we could be in a position that would require us to raise additional capital, which may not be available to us or may not be available on acceptable terms.

Commitments and Contingencies

At January 31, 2006, the Company has outstanding commitments for inventory purchases under open purchase orders of approximately $690,000.

On October 28, 2005, the Company entered into a non-binding Letter of Intent (“LOI”) to acquire Spark Technology Corporation (“Spark”). Spark designs and markets accessories for wireless telephones. It recently announced Cellstik, a small memory device that allows users to easily backup, enter, edit and transfer their cell phone contacts. The LOI is subject to negotiation of a definitive agreement, approval by the eOn Board of Directors and shareholders, completion of due diligence process and various other conditions. Subject to fulfillment of the various conditions, eOn has agreed to a purchase price of up to 8,933,000 common shares of eOn stock. eOn has also agreed to loan Spark up to $300,000 during the period prior to closing.

In accordance with the LOI, the Company loaned Spark $200,000 and $100,000 on November 14, 2005 and January 18, 2006, respectively to fund operating expenses. As of January 31, 2006, the Company has recorded notes receivable of $300,000 on the balance sheet. The principal amount of these notes, plus unpaid accrued interest at a rate of 6% per annum, are due and payable on May 31, 2006, unless the Spark acquisition is not completed.

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.

<u>Fluctuations in our quarterly operating results could cause our stock price to decline.</u>

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.

<u>Our communications servers face intense competition from many companies that have targeted our markets.</u>

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.

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

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 January 31, 2006 our executive officers, directors and principal stockholders and their affiliates beneficially owned 4,258,114 common 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.

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.

Item 3. – 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”)) were 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 were no changes in internal control over financial reporting that occurred during the three month period ending January 31, 2006.

PART II - OTHER INFORMATION

Item 1. – Legal Proceedings

None.

Item 2. – Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. – Defaults Upon Senior Securities

None.

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

None.

Item 5. – Other Information

None.

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Item 6. – Exhibits.

(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

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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

Dated: March 17, 2006

\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-QSB of eOn Communications Corporation (“Registrant”);

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

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

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-*15(e)* and 15d-*15(e)*) 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 second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

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

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

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

Dated: March 17, 2006

/s/ David S. Lee
David S. Lee
Chief Executive Officer

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

I, Stephen R. Bowling, certify that:

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

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

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

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-*15(e)* and 15d-*15(e)*) 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 second fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

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

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

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

Dated: March 17, 2006

/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-QSB 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.

Dated: March 17, 2006

/s/ David S. Lee
David S. Lee
Chief Executive Officer

In connection with this quarterly report on Form 10-QSB 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.

Dated: March 17, 2006

/s/ Stephen R. Bowling
Stephen R. Bowling
Chief Financial Officer