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 APRIL 30, 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 ☒

13,451,231 shares of common stock, $0.01 par value, were outstanding as of May 31, 2006.

EON COMMUNICATIONS CORPORATION
FORM 10-QSB
QUARTER ENDED APRIL 30, 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)

	April 30, 2006 (unaudited)	July 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 912	$ 870
Marketable securities	5,750	3,600
Trade accounts receivable, net of allowance of $555 and $1,106, respectively	2,091	2,145
Trade accounts receivable - related party	80	19
Proceeds receivable from sale of discontinued operations	40	—
Inventories	2,032	2,155
Prepaid and other current assets	351	206
Current assets of discontinued operations	—	7,408
Total current assets	11,256	16,403
Property and equipment, net	286	434
Goodwill	21	21
Investments	301	—
Non-current assets of discontinued operations	—	271
Total assets	$ 11,864	$ 17,129
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 536	$ 703
Trade accounts payable - related party	89	157
Deferred acquisition payment	—	914
Accrued expenses and other	1,664	1,603
Current liabilities of discontinued operations	—	4,952
Total current liabilities	2,289	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, 14,128,131 and 13,579,957 shares issued, respectively)	14	13
Additional paid-in capital	55,029	54,455
Treasury stock, at cost (676,900 shares)	(1,502)	(1,502)
Accumulated deficit	(43,966)	(45,372)
Accumulated other comprehensive income	—	61
Total stockholders' equity	9,575	7,655
Total liabilities and stockholders' equity	$ 11,864	$ 17,129

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
REVENUE				
Net revenue	$ 3,047	$ 2,942	$ 9,183	$10,066
COST OF REVENUE				
Cost of revenue	1,107	1,042	3,191	4,068
Gross profit	1,940	1,900	5,992	5,998
OPERATING EXPENSE				
Selling, general and administrative	1,074	1,747	3,510	4,852
Research and development	643	771	1,901	2,412
Other (income) expense, net	(1)	23	63	13
Total operating expense	1,716	2,541	5,474	7,277
Income (loss) from continuing operations	224	(641)	518	(1,279)
Interest income	45	24	112	68
Income (loss) from continuing operations before income taxes	269	(617)	630	(1,211)
Income tax expense	—	—	—	—
Income (loss) from continuing operations after income taxes	269	(617)	630	(1,211)
DISCONTINUED OPERATIONS				
Income (loss) from discontinued operations, net of tax and minority interest of $0, $86, $289 and $95, respectively	—	(79)	256	85
Gain on disposal of discontinued operations, net of tax of $0, $0, $20 and $0, respectively	25	—	303	—
Income (loss) from discontinued operations	25	(79)	559	85
Income (loss) before extraordinary item	294	(696)	1,189	(1,126)
EXTRAORDINARY ITEM				
Extraordinary gain, net of income taxes of $0	—	—	217	—
Net income (loss)	$ 294	$ (696)	$ 1,406	$ (1,126)
COMPREHENSIVE INCOME (LOSS)				
Net income (loss)	$ 294	$ (696)	$ 1,406	$ (1,126)
Foreign currency translation adjustment	—	—	8	—
Comprehensive income (loss)	$ 294	$ (696)	$ 1,414	$ (1,126)
Weighted average shares outstanding:				
Basic	13,424	12,859	13,309	12,838
Diluted	13,587	12,859	13,394	12,838
Basic income (loss) per share:				
From continuing operations after income taxes	$ 0.02	$ (0.04)	$ 0.05	$ (0.10)
From discontinued operations, net of tax and minority interest	—	(0.01)	0.04	0.01
From extraordinary gain, net of income taxes	—	—	0.02	—
Basic income (loss) per share	$ 0.02	$ (0.05)	$ 0.11	$ (0.09)
Diluted income (loss) per share:				
From continuing operations after income taxes	$ 0.02	$ (0.04)	$ 0.05	$ (0.10)
From discontinued operations, net of tax and minority interest	—	(0.01)	0.04	0.01
From extraordinary gain, net of income taxes	—	—	0.02	—
Diluted income (loss) per share	$ 0.02	$ (0.05)	$ 0.11	$ (0.09)

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended April 30, 2006	Nine Months Ended April 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 1,406	$(1,126)
Change in operating assets and liabilities of discontinued operations	(173)	452
Minority interest of discontinued operations	217	72
Extraordinary gain	(217)	—
Gain on disposal of discontinued operations	(303)	—
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	236	360
Provision of allowance for doubtful accounts	85	166
Loss on disposal of fixed assets	16	—
Changes in net assets and liabilities		
Trade accounts receivable	(31)	(21)
Inventories	123	(16)
Prepaid and other current assets	(145)	(131)
Trade accounts payable	(167)	(180)
Trade accounts receivable/payable - related party	(145)	188
Accrued expenses and other	(145)	(243)
Net cash provided by (used in) operating activities	757	(479)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(104)	(111)
Disposals of property and equipment	—	11
Investment in Chinese joint venture	(1)	—
Notes receivable - related party	(300)	—
Purchases of marketable securities	(2,950)	—
Sale of marketable securities	800	600
Cash used in business acquisition	—	(40)
Proceeds from disposal of discontinued operations	1,800	—
Investing activities from discontinued operations	(44)	(169)
Net cash provided by (used in) investing activities	(799)	291
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan and stock option exercises	84	68
Financing activities from discontinued operations	—	(471)
Net cash provided by (used in) financing activities	84	(403)
Net increase (decrease) in cash and cash equivalents	42	(591)
Cash and cash equivalents, beginning of period	870	1,772
Cash and cash equivalents, end of period	$ 912	$ 1,181

See accompanying notes to the condensed consolidated financial statements.

EON COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three and Nine Months Ended April 30, 2006 and 2005

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared by eOn Communications Corporation (“eOn” or the “Company”). It is management’s opinion that these statements include all adjustments, consisting of only normal recurring adjustments necessary to present fairly the financial position, results of operations, and cash flows as of April 30, 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 April 30, 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 Opinion (“APBO”) 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 APBO No. 25, and, as such, no compensation cost was recognized with respect to the ESPP.

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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 (in thousands, except per share information):

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
Net income (loss), as reported	$ 294	$ (696)	$1,406	$(1,126)
Deduct: Total stock-based compensation determined under fair value based method for all awards, net of tax	(81)	(92)	(243)	(276)
Net income (loss), pro forma	$ 213	$ (788)	$1,163	$(1,402)
Net income (loss) per share , basic				
As reported	$ 0.02	$ (0.05)	$ 0.11	$ (0.09)
Pro forma	$ 0.02	$ (0.06)	$ 0.09	$ (0.11)
Net income (loss) per share , diluted				
As reported	$ 0.02	$ (0.05)	$ 0.11	$ (0.09)
Pro forma	$ 0.02	$ (0.06)	$ 0.09	$ (0.11)

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 of 7 years.

In December 2004, the Financial Accounting Standards Board ("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 APBO No. 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.

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 SFAS 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 has recognized a gain on the disposal of discontinued operations of $303,000. The net sales proceeds of $1,800,000 and $40,000 in transaction costs paid on behalf of the purchaser were recorded as a receivable as of January 31, 2006. During March 2006, the Company received proceeds totaling $1,800,000 after Cortelco Shanghai received the necessary approvals from the People’s Republic of China (“PRC”) Central Bank. The final payment of approximately $89,000, representing a dividend for 2005 has not yet been approved by the PRC Central Bank, pending review of Cortelco Shanghai’s 2005 income tax filing. An accounts payable balance of $49,000 payable to Cortelco Shanghai has been offset against the dividend receivable. Results of discontinued operations for the three months ended April 30, 2005 and nine months ended April 30, 2006 and 2005 follow (in thousands):

	Three Months Ended April 30,	Nine Months Ended April 30,	
	2005	2006	2005
REVENUE			
Net third party revenue	$ 1,049	$ 3,662	$ 4,791
Net related party revenue	730	734	1,784
Total revenue	1,779	4,396	6,575
COST OF REVENUE			
Third party cost of revenue	958	3,146	3,904
Related party cost of revenue	574	279	1,414
Total cost of revenue	1,532	3,425	5,318
Gross profit	247	971	1,257
OPERATING EXPENSE			
Selling, general and administrative	473	451	1,185
Total operating expense	473	451	1,185
Income (loss) from continuing operations	(226)	520	72
Interest income	9	18	36
Other income, net	52	7	72
Income (loss) from continuing operations before income taxes	(165)	545	180
Income tax expense	19	(72)	(23)
Income (loss) from continuing operations before minority interest	(146)	473	157
Minority interest	67	(217)	(72)
Income (loss) from discontinued operations	$ (79)	$ 256	$ 85

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 April 30,		Nine Months Ended April 30,	
	2006	2005	2006	2005
Purchases from CSHC and subsidiaries	$ 224	$ 192	$ 636	$ 613

The following represents related party balances (in thousands):

	April 30, 2006	July 31, 2005
Trade receivables from Spark Technology Corporation	$ 80	$ 19
Trade accounts receivable - related party	$ 80	$ 19
Payable to CII	$ 86	$ 56
Payable to Spark Technology Corporation	3	101
Trade accounts payable - related party	$ 89	$ 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 majority owned by David Lee, the Chief Executive Officer and a major shareholder of eOn. Aelix has incurred approximately $135,000 of expenses on behalf of Spark during the nine months ended April 30, 2006 (net of approximately $33,000 incurred by Spark engineers on behalf of eOn). Additionally, Spark has paid approximately $18,000 during the nine months ended April 30, 2006 for engineering project management services, in accordance with an agreement with Company.

Cortelco Shanghai performed engineering development projects for Spark. For the nine months ended April 30, 2006 and the six months ended January 31, 2006, Cortelco Shanghai incurred expenses of approximately $137,000 on behalf of Spark. As of April 30, 2006, all amounts owed have been paid by Spark.

In April 2005, Spark deposited $211,000 with the Company in China to pay for Spark expenses. The balance is included in the Company's balance sheet as Cash and offset in Trade Accounts Payable – Related Party. As of April 30, 2006, this deposit/prepayment has been fully depleted.

On March 31, 2006, the Company entered into an Acquisition Option Agreement ("the Agreement") with Spark Technology Corporation. Under the terms of the Agreement, the Company converted notes receivable of $300,000 to 300,000 shares or 3% of Spark Common Stock and has the option to purchase all remaining outstanding Spark Common Stock, including options, by issuing 8,665,000 shares of the Company's common stock. The Company will have the right to give notice of its intent to exercise this option at any time between September 30, 2007 and March 31, 2008. The eOn Board of Directors will continue to monitor Spark's operations and complete its due diligence process prior to granting approval of the option exercise. After such notice of exercise, the Company will file a Form S-4 with the Securities and Exchange Commission and seek the approval of the Company's shareholders.

The Agreement further provides that in the event the Company does not exercise this option, or the Company's shareholders do not approve it, the Company may require Spark or David Lee to repurchase the Company's Spark shares for $300,000. In addition, in the event that Spark was to discontinue operations or be liquidated, David Lee would repurchase the shares for $300,000 within 60 days.

6. Inventories

Inventories consist of the following (in thousands):

	April 30, 2006	July 31, 2005
Raw materials and purchased components	$ 777	$ 743
Finished goods	1,255	1,412
Total inventories	$ 2,032	$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 is as follows (in thousands):

	Nine Months Ended April 30, 2006	Nine Months Ended April 30, 2005
Beginning balance	$ 228	$ 300
Warranty cost incurred	(109)	(125)
Accrued warranty cost	86	177
Ending balance	$ 205	$ 352

8. Changes in Stockholders' Equity

The following represents the changes in stockholders' equity for the nine months ended April 30, 2006 (in thousands, excluding share data):

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
Balance at July 31, 2005	13,579,957	$ 13	$ 54,455	(676,900)	$(1,502)	$ (45,372)	$ 61	$ 7,655
Net income	—	—	—	—	—	1,406	—	1,406
Translation adjustment	—	—	—	—	—	—	(61)	(61)
Issuance of common stock for employee stock options	29,521	—	41	—	—	—	—	41
Issuance of common stock under employee stock purchase plan	47,152	—	43	—	—	—	—	43
Issuance of stock for deferred acquisition payment	471,501	1	490	—	—	—	—	491
Balance at April 30, 2006	14,128,131	$ 14	$ 55,029	(676,900)	$(1,502)	$ (43,966)	$ —	$ 9,575

9. Commitments and Contingencies

At April 30, 2006, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $851,000.

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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10. Income Taxes

The Company recognizes 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. To the extent that net operating income exists, the Company expects to utilize NOL carry forwards to offset any ordinary taxable income for the year ended July 31, 2006.

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 assets. 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 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.

11. Equity Incentive Plans

The status of the Company’s stock option plans as of April 30, 2006 is as follows:

	Number of Shares	Weighted Average Exercise Price
Options outstanding, July 31, 2005	1,572,844	$ 4.27
Granted	87,000	1.25
Exercised	(29,521)	1.33
Cancelled	(308,358)	6.59
Options outstanding, April 30, 2006	1,321,965	$ 3.60
Options exercisable April 30, 2006	1,012,453	$ 4.04
Exercise price range	$0.28 - $24.25	
Options available for grant, April 30, 2006	769,918	

12. Basic and Diluted Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed by using the weighted average of common shares outstanding adjusted to include the potentially dilutive effect of outstanding stock options. Potentially dilutive securities of 162,565 and 84,509 for the quarter and nine months ended April 30, 2006, respectively have been used in the computation of diluted earnings per share. For the quarter and nine months ended April 30, 2005, potentially dilutive securities have been excluded from the computation of earnings per share since the Company has losses from continuing operations for these periods and their effect would have been antidilutive.

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 is 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

eOn Communications Corporation is a global provider of innovative communications solutions. Backed with over 20 years of telecommunications engineering expertise, our solutions enable our customers to easily leverage advanced technologies in order to communicate more effectively. Our offerings are built on reliable open architectures that enable easy adoption of emerging technologies, such as Voice over Internet Protocol (VoIP) and concepts, such as Service Oriented Architectures (SOA). Whether our customers are looking to leverage the advantages of enterprise IP telephony or advanced contact center technologies, eOn Communications delivers proven, IP-ready products that will improve business performance.

Cortelco Shanghai

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 SFAS 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 has recognized a gain on the disposal of discontinued operations of $303,000. The net sales proceeds of $1,800,000 and $40,000 in transaction costs paid on behalf of the purchaser were recorded as a receivable as of January 31, 2006. During March 2006, the Company received proceeds totaling $1,800,000 after Cortelco Shanghai received the necessary approvals from the People's Republic of China ("PRC") Central Bank. The final payment of approximately $89,000, representing a dividend for 2005 has not yet been approved by the PRC Central Bank, pending review of Cortelco Shanghai's 2005 income tax filing. An accounts payable balance of $49,000 payable to Cortelco Shanghai has been offset against the dividend receivable.

Spark Technology

On March 31, 2006, the Company entered into an Acquisition Option Agreement ("the Agreement") with Spark Technology Corporation. Under the terms of the Agreement, the Company converted notes receivable of $300,000 to 300,000 shares or 3% of Spark Common Stock and has the option to purchase all remaining outstanding Spark Common Stock, including options, by issuing 8,665,000 shares of the Company's common stock. The Company will have the right to give notice of its intent to exercise this option at any time between September 30, 2007 and March 31, 2008. The eOn Board of Directors will continue to monitor Spark's operations and complete its due diligence process prior to granting approval of the option exercise. After such notice of exercise, the Company will file a Form S-4 with the Securities and Exchange Commission and seek the approval of the Company's shareholders.

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The Agreement further provides that in the event the Company does not exercise this option, or the Company's shareholders do not approve it, the Company may require Spark or David Lee to repurchase the Company's Spark shares for $300,000. In addition, in the event that Spark was to discontinue operations or be liquidated, David Lee would repurchase the shares for $300,000 within 60 days.

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 nine months ended April 30, 2006, we have written off approximately $0.6 million 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 APBO No. 25 and related interpretations in accounting for stock options. Under "fixed plan" accounting in APBO No. 25, no compensation expense is recognized because the exercise price of the Company's options equals the market price of the underlying stock on the date of grant. The Company has adopted pro forma disclosures of SFAS No. 123.

In December 2004, the FASB issued SFAS No. 123(R), which addresses the accounting for share-based payment transactions. SFAS No. 123(R) eliminates the ability to account for share-based compensation transactions using APBO No. 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, we have available net operating loss ("NOL") carry forwards of $20.1 million. To the extent that net operating income exists, we expect to utilize NOL carry forwards to offset any ordinary taxable income for the year ended July 31, 2006.

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 assets. 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 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 April 30, 2006 compared to the Three Months Ended April 30, 2005

Net Revenue

Net revenue increased approximately 4% to $3.0 million for the three months April 30, 2006 compared to $2.9 million for the same period of the previous year. The increase reflects higher eQueue revenue 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 6% to $1.1 million for the three months ended April 30, 2006 from $1.0 million for the same period of the previous year, as a result of increased eQueue sales.

eQueue gross profit increased over the same period last year as a result of higher revenues, partially offset by slightly lower margins. Millennium gross profit decreased over the same period last year as a result of lower revenues and lower margins. Gross margin decreased to approximately 64% for the three months ended April 30, 2006 compared with gross margin of approximately 65% for the same period of the previous year. This decrease reflects a decline in Millennium margins and a change in revenue mix.

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 39% to $1.1 million for the three months ended April 30, 2006, from $1.7 million for the same period of the previous year. The improvement reflects lower employee compensation (resulting from reductions in workforce), lower travel costs, reduced professional fees and lower marketing expenses over the same period of the previous year.

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 17% to $0.6 million for the three months ended April 30, 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.

Other Income and Expense

Other income was $1,000 for the quarter ended April 30, 2006 compared to other expense of $23,000 for the same period of the previous year. The improvement reflects reduced franchise taxes, currency exchange gains during 2006 and a loss on disposal of fixed assets during the period of the previous year.

Interest Income

Interest income was $45,000 for the three months ended April 30, 2006 compared to $24,000 for the same period of the previous year. The increase is a result of better returns on our short-term marketable securities due to the rise in interest rates and an increase in investment balances over the previous year.

For the Nine Months Ended April 30, 2006 compared to the Nine Months Ended April 30, 2005

Net Revenue

Net revenue decreased approximately 9% to $9.2 million for the nine months April 30, 2006 compared to $10.1 million for the same period of the previous year. The decrease reflects a decrease in Millennium revenue, partially offset by higher eQueue revenue 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 for the nine months ended April 30, 2006 was unchanged compared to the same period of the previous year.

eQueue gross profit increased over the same period last year reflecting an improvement in margins. Millennium gross profit decreased over the same period last year as a result of lower margins. Gross margin increased to approximately 65% for the nine months ended April 30, 2006 compared with gross margin of approximately 60% for the same period of the previous year. This increase was primarily due to sales mix, higher margin eQueue products represented a higher 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 28% to $3.5 million for the nine months ended April 30, 2006, from $4.9 million for the same period of the previous year. The improvement reflects lower salaries and benefits costs (resulting from reductions in workforce), reduced travel costs and lower advertising and marketing 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 21% to $1.9 million for the nine months ended April 30, 2006 from $2.4 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.

Other Income and Expense

Other expense was $63,000 for the nine months ended April 30, 2006 compared to $13,000 for the same period of the previous year. The increase primarily reflects higher franchise taxes and a loss incurred to close down our Korean operations.

Interest Income

Interest income was $112,000 for the nine months ended April 30, 2006 compared to $68,000 for the same period of the previous year. The increase is a result of better returns on our short-term marketable securities due to the rise in interest rates and an increase in investment balances over the previous year.

Liquidity and Capital Resources

As of April 30, 2006, we had cash and cash equivalents of $0.9 million, $5.8 million in short-term investments, and working capital of $9.0 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 inflow of $0.8 million for the nine months ended April 30, 2006 compared to a net cash outflow of $0.5 million for the same period of the previous year. Cash provided by operations for the current period was primarily the result of net income, net of non cash items, and reduced inventory, partially offset by reduced trade accounts payable and accrued expenses and increased prepaid and other. Cash used by operations for the comparable period of the previous year was primarily the result of net loss, net of non cash items, lower accounts payable and accrued expense, partially offset by reduced related party trade accounts receivable.

Our investing activities resulted in a net cash outflow of $0.8 million for the nine months ended April 30, 2006 compared to a net cash inflow of $0.3 million for the same period of the previous year. Cash used in investing activities for the current

period was primarily the result of purchases of marketable securities, cash advanced for notes receivable and capital spending, partially offset by proceeds from discontinued operations and proceeds from selling marketable securities. Cash provided by investing activities for the comparable period of the previous year was primarily the result of sales of marketable securities, offset by investing activities from discontinued operations and capital spending.

Our financing activities resulted in a cash inflow of $84,000 for the nine months ended April 30, 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 were a result of purchases under the Employee Stock Purchase Plan and proceeds from options exercised under our Equity Incentive Plans. Cash used in financing activities for the comparable period of the previous year reflects 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 $0.6 million for the nine months ended April 30, 2006 versus a loss from continuing operations of $1.2 million for the same period in the prior year. As of April 30, 2006, the Company had $6.7 million in cash and cash equivalents and short-term investments in the United States available to fund operations.

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

Purchase Commitments

At April 30, 2006, the Company has outstanding commitments for inventory purchases under open purchase orders of approximately $851,000.

Operating Leases

Since July 31, 2005, the Company has entered into the following operating leases to replace space previously leased in these locations.

On November 28, 2005, the Company entered into a five year operating lease for 5,000 square feet of office space in Bangalore, India. The lease term begins January 1, 2006 and expires on December 31, 2010. Annual lease payments are approximately $30,600.

On December 26, 2005, the Company entered into a two year operating lease for 1,520 square feet of office space in Shanghai, China. The lease commenced on January 16, 2006 and expires on December 31, 2007. Annual lease payments are approximately $15,576.

On April 5, 2006, the Company entered into a three year operating lease for 4,171 square feet of office space in Beijing, China. The lease term began on May 7, 2006 and expires on June 1, 2006. Annual lease payments are approximately $67,836.

Spark Purchase Option

On March 31, 2006, the Company entered into an Acquisition Option Agreement ("the Agreement") with Spark Technology Corporation. Under the terms of the Agreement, the Company converted notes receivable of $300,000 to 300,000 shares or 3% of Spark Common Stock and has the option to purchase all remaining outstanding Spark Common Stock, including options, by issuing 8,665,000 shares of the Company's common stock. The Company will have the right to give notice of its intent to exercise this option at any time between September 30, 2007 and March 31, 2008. The eOn Board of Directors will continue to monitor Spark's operations and complete its due diligence process prior to granting approval of the option exercise. After such notice of exercise, the Company will file a Form S-4 with the Securities and Exchange Commission and seek the approval of the Company's shareholders.

The Agreement further provides that in the event the Company does not exercise this option, or the Company's shareholders do not approve it, the Company may require Spark or David Lee to repurchase the Company's Spark shares for $300,000. In addition, in the event that Spark was to discontinue operations or be liquidated, David Lee would repurchase the shares for $300,000 within 60 days.

Litigation, Claims and Assessments

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;
- 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 continue to develop products that improve communications, increase employee productivity and lower costs. While the industry remains fragmented, it is rapidly moving toward consolidation. A number of our current competitors have been recently acquired by companies seeking to increase market share and their ability to compete. Additionally, robust open-source products have recently emerged in the market further lowering barriers to market entry and increasing competition.

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 and Aspect Communications;
- Data communication equipment suppliers, such as Cisco Systems and 3COM;
- Email management and web center software suppliers, such as eGain Communications, Kana Communications, and RightNow Technologies;
- IP telephony solution providers, such as Nortel Networks, Avaya, Mitel, NEC, Toshiba, and Siemens and
- Customer relationship management (CRM) suppliers such as Oracle and SalesForce.com.

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 adversely affect our business. We cannot assure you that we will be able to compete successfully against these competitors.

If we cannot maintain our indirect sales channels our ability to generate revenue would be adversely affected.

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

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

The uncertainty of our sales cycle makes the timing of sales difficult to predict and may cause fluctuations in our quarterly operating results. Our sales cycles generally vary from six 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.

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 third party contract manufacturers. 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 July 31, 2005, our executive officers, directors and principal stockholders and their affiliates beneficially owned 4,300,147 shares, or 31.7% 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 ended April 30, 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

	/s/ Stephen R. Bowling
Dated: June 14, 2006	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: June 14, 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: June 14, 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: June 14, 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: June 14, 2006

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