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, 2007.**

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)**
185 Martinvale Lane **San Jose, CA** **(Address of principal executive offices)**	**95119** **(Zip code)**

(408) 694-9500
(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 ☒

14,139,051 shares of common stock, $0.01 par value, were outstanding as of February 28, 2007.

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EON COMMUNICATIONS CORPORATION
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QUARTER ENDED JANUARY 31, 2007

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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, 2007 (unaudited)	July 31, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,404	$ 934
Marketable securities	5,200	5,750
Trade accounts receivable, net of allowance of $660 and $372, respectively	752	1,639
Trade accounts receivable - related party	100	27
Proceeds receivable from sale of discontinued operations	—	89
Inventories	2,326	2,167
Prepaid and other current assets	336	289
Total current assets	10,118	10,895
Property and equipment, net	275	338
Long-term receivable, net of allowance of $232	—	153
Goodwill	418	418
Investments	301	301
Total assets	$ 11,112	$ 12,105
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 383	$ 453
Trade accounts payable - related party	288	72
Deferred acquisition payment	397	397
Accrued expenses and other	1,043	1,376
Total current liabilities	2,111	2,298
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, 14,139,051 and 14,128,922 shares issued, respectively)	14	14
Additional paid-in capital	55,199	55,030
Treasury stock, at cost (676,900 shares)	(1,502)	(1,502)
Accumulated deficit	(44,710)	(43,735)
Total stockholders' equity	9,001	9,807
Total liabilities and stockholders' equity	$ 11,112	$ 12,105

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,	
	2007	2006	2007	2006
REVENUE				
Third party revenue	$ 1,319	$ 2,964	$ 4,027	$ 6,136
Related party revenue	168	—	168	—
Net revenue	$ 1,487	$ 2,964	$ 4,195	$ 6,136
COST OF REVENUE				
Third party cost of revenue	514	1,024	1,457	2,084
Related party cost of revenue	156	—	156	—
Cost of revenue	670	1,024	1,613	2,084
Gross profit	817	1,940	2,582	4,052
OPERATING EXPENSE				
Selling, general and administrative	1,120	1,176	2,177	2,446
Research and development	768	577	1,510	1,248
Other expense, net	24	40	30	64
Total operating expense	1,912	1,793	3,717	3,758
(Loss) income from continuing operations	(1,095)	147	(1,135)	294
Interest income	80	33	160	67
(Loss) income from continuing operations before income taxes	(1,015)	180	(975)	361
Income tax expense	—	—	—	—
(Loss) income from continuing operations after income taxes	(1,015)	180	(975)	361
DISCONTINUED OPERATIONS				
Income from discontinued operations, net of tax of $162 and minority interest of $289, respectively	—	149	—	256
Gain on disposal of discontinued operations, net of tax of $20	—	278	—	278
Income from discontinued operations	—	427	—	534
(Loss) income before extraordinary item	(1,015)	607	(975)	895
EXTRAORDINARY ITEM				
Extraordinary gain, net of income taxes of $0	—	—	—	217
Net (loss) income	$ (1,015)	$ 607	$ (975)	$ 1,112
COMPREHENSIVE (LOSS) INCOME				
Net (loss) income	$ (1,015)	$ 607	$ (975)	$ 1,112
Foreign currency translation adjustment	—	—	—	8
Comprehensive (loss) income	$ (1,015)	$ 607	$ (975)	$ 1,120
Weighted average shares outstanding:				
Basic	13,552	13,402	13,549	13,291
Diluted	13,552	13,469	13,549	13,356
Basic (loss) income per share:				
From continuing operations after income taxes	$ (0.07)	$ 0.02	$ (0.07)	$ 0.03
From discontinued operations, net of tax and minority interest	—	0.03	—	0.04
From extraordinary gain, net of income taxes	—	—	—	0.01
Basic (loss) income per share	$ (0.07)	$ 0.05	$ (0.07)	$ 0.08
Diluted (loss) income per share:				
From continuing operations after income taxes	$ (0.07)	$ 0.02	$ (0.07)	$ 0.03
From discontinued operations, net of tax and minority interest	—	0.03	—	0.04
From extraordinary gain, net of income taxes	—	—	—	0.01
Diluted (loss) income per share	$ (0.07)	$ 0.05	$ (0.07)	$ 0.08

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)

	Six Months Ended January 31, 2007	Six Months Ended January 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	$ (975)	$ 1,112
Change in operating assets and liabilities of discontinued operations	—	(173)
Minority interest of discontinued operations	—	217
Extraordinary gain	—	(217)
Gain on disposal of discontinued operations	—	(278)
Loss on disposal of fixed assets	—	16
Non-cash stock based compensation expense	158	—
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation and amortization	99	166
Provision of allowance for doubtful accounts	(19)	111
Changes in net assets and liabilities		
Trade accounts receivable	906	(1,178)
Inventories	(159)	(55)
Prepaid and other current assets	(47)	(103)
Trade accounts payable	(70)	(31)
Trade accounts receivable/payable—related party	143	(107)
Accrued expenses and other	(333)	(27)
Net cash used in operating activities	(297)	(547)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(36)	(109)
Notes receivable—related party	—	(300)
Purchases of marketable securities	(2,650)	—
Disposal of marketable securities	3,200	800
Proceeds from disposal of discontinued operations	89	—
Investing cash flows from discontinued operations	—	(44)
Net cash provided by investing activities	603	347
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan and stock option exercises	11	24
Net cash provided by financing activities	11	24
Net increase (decrease) in cash and cash equivalents	317	(176)
Cash and cash equivalents, beginning of period	934	870
Cash and cash equivalents, end of period	$ 1,251	$ 694

See accompanying notes to the condensed consolidated financial statements.

EON COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Six Months Ended January 31, 2007 and 2006

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 January 31, 2007 and for all periods presented.

Principles of Consolidation – 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 eOn Communications Corporation, Aelix Systems, Inc. ("Aelix"), eOn Communications (Beijing) Corporation Limited ("eOn China") formed on June 20, 2006, Cortelco China Corporation, and through December 31, 2005, the date of disposition, it's majority owned subsidiary, Cortelco Shanghai Telecom Equipment Company ("Cortelco Shanghai"). All significant inter-company balances and transactions have been eliminated in consolidation.

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, 2006 and 2005 and for each of the two years in the period ended July 31, 2006, which are included in the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

Certain amounts in the fiscal year 2006 consolidated financial statements have been reclassified to conform to the fiscal year 2007 consolidated financial statement presentation.

Recently Issued Accounting Standards

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"), which clarifies the accounting and disclosure associated with certain aspects of recognition and measurement related to accounting for income taxes. The Company has not yet determined the impact, if any, that FIN 48 will have on its financial statements. FIN 48 is effective for fiscal years beginning after December 15, 2006.

In February 2007, the FASB issued SFAS No. 159, "Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 permits companies to elect to measure eligible financial instruments, commitments and certain other arrangements at fair value at specified election dates, with changes in fair value recognized in earnings at each subsequent reporting period. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect SFAS 159 to have a material impact on its Consolidated Financial Statements.

2. Stock Based Compensation

Equity Incentive Plans

The Company's Equity Incentive Plans, adopted in fiscal years 1997, 1999 and 2001, authorize the granting of incentive stock options, supplemental stock options, stock bonuses, and restricted stock purchase agreements to officers, directors, and employees of the Company and to non-employee consultants. Incentive stock options are granted only to employees and are issued at prices not less than 100% of the fair market value of the stock at the date of grant. The options generally vest over a four-year period and the term of any option cannot be greater than ten years from the date of grant. Stock bonuses and restricted stock purchase agreements are issued at prices not less than 85% of the fair market value of the stock at the date of grant.

Employee Stock Purchase Plan

During 1999, the board of directors adopted an Employee Stock Purchase Plan which permits employees to purchase up to 250,000 shares of the Company's common stock. The plan was amended in 2005 to increase the number of shares available under the plan to 1,000,000. The purchase price under this plan is 85% of the fair market value of the common stock at the beginning of an offering period or on a purchase date, whichever is less. Offering periods generally last one year with purchase dates six and twelve months from the beginning of an offering period.

Stock Compensation

Beginning August 31, 2006, the Company adopted Financial Accounting Standard Board (FASB) Statement No. 123(R) (SFAS 123R), "Share-Based Payment" using the modified prospective transition method. Under the modified prospective transition method, prior periods are not restated for the effect of SFAS 123R. Under SFAS 123R, compensation cost is calculated on the date of grant using the fair value of the option as determined using the Black-Scholes option pricing model. The compensation cost is then amortized straight-line over the vesting period. The Black-Scholes valuation calculation requires the Company to estimate key assumptions such as expected term, volatility and forfeiture rates to determine the stock options fair value. The estimate of these key assumptions is based on historical information and judgment regarding market factors and trends.

Prior to August 1, 2006, the Company accounted for stock options under the recognition and measurement provisions of APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by SFAS 123. No stock-based compensation was recognized on employee stock options or ESPP share issued prior to August 1, 2006.

Determining Fair Value

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions in the following table. Expected volatilities are based on historical daily closing prices adjusted for expected future volatility. The Company believes that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. The Company uses historical information to calculate expected life of option grants. The Company believes that historical information is currently reflective of the economic life of outstanding option grants. The dividend yield is determined by dividing the expected per share dividend during the coming year by the average fair market value of the stock during the quarter. The Company has not historically declared any cash dividends on its common stock, and currently intends to retain any retained earnings to finance the operation and expansion of the business and therefore does not expect to pay cash dividends on the common stock in the foreseeable future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The estimated fair value of the employee stock options are amortized to expense using the straight-line method over the vesting period.

The assumptions used to value option grants and the Employee Stock Purchase Plan for the six months ended January 31, 2007 and 2006 are as follows:

	2007	2006
Volatility	107%	107%
Expected term (in years)	6.25	6.25
Dividend yield	—	—
Risk free interest rate	4.57% - 4.93%	4.86%

During the six months ended January 31, 2007, the Company issued 5,000 options to purchase common stock.

Total stock-based compensation recognized for the six months ended January 31, 2007, related to options granted prior to August 1, 2006 and ESPP shares issued during the six months ended January 31, 2007, is as follows:

Income Statement Classifications	Option Grants	ESPP	Total
Selling, general and administrative	$101,000	$4,000	$105,000
Research and development	51,000	2,000	53,000
Total	$152,000	$6,000	$158,000

Pro Forma Disclosure

As stated above, the Company implemented SFAS 123R on August 1, 2006 and was not required to restate results for prior periods. However, the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS 123 to options granted under the Company's stock option plans for the six months ended January 31, 2006. For purposes of the pro forma disclosure, the value of the options is estimated using the Black-Scholes option-pricing model and amortized to expense straight-line, over the options' vesting periods. Note that the below pro forma disclosures are provided for the six months ended January 31, 2006 only because employee stock options were not accounted for using the fair value method during that period.

The following table sets forth the pro forma amounts of net income and net income per share, for the three and six months ended January 31, 2006, that would have resulted if we had accounted for our employee stock plans under the fair value recognition provisions of SFAS 123:

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	Three Months Ended January 31, 2006	Six Months Ended January 31, 2006
Net income as reported	$ 607	$ 1,112
Deduct: Total stock-based compensation determined under		
fair value based method for all awards, net of tax	(57)	(115)
Pro forma net income	$ 550	$ 997
Net income per share:		
Basic – as reported	$ 0.05	$ 0.08
Basic – pro forma	$ 0.04	$ 0.08
Diluted – as reported	$ 0.05	$ 0.08
Diluted – pro forma	$ 0.04	$ 0.07

On January 31, 2007, there is $404,000 of unrecognized compensation cost, adjusted for estimated forfeitures, related to non-vested stock-based compensation payments granted to eOn employees. Total unrecognized compensation cost will be adjusted for future changes in estimated forfeitures.

General Stock Option Information

Activity in the Company's stock option plans since July 31, 2006 is as follows:

	Options Avaliable for Grant	Number of Shares	Weighted Average Exercise Price
Options outstanding, July 31, 2006	446,917	1,644,175	$ 3.17
Granted	—	5,000	—
Exercised	—	(875)	1.00
Cancelled	—	—	—
Options outstanding, January 31, 2007	446,917	1,648,300	$ 3.17
Options exercisable January 31, 2007		1,385,737	$ 3.41
Exercise price range		$0.28 - $24.25	

Information regarding the stock options outstanding under the Company's stock option plans at January 31, 2007 is summarized as follows:

Range of Exercise Prices	Outstanding at January 31, 2007	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at January 31, 2007	Weighted Average Exercise Price
$0.00 — $5.00	1,389,071	6.7 years	$ 2.05	1,126,508	$ 2.08
$5.01 — $10.00	171,629	2.0 years	8.12	171,629	8.12
$10.01 — $20.00	84,600	2.5 years	10.73	84,600	10.73
$20.01 — $25.00	3,000	3.1 years	24.25	3,000	24.25
	1,648,300	6.0 years	$ 3.17	1,385,737	$ 3.41

The aggregate intrinsic value of options outstanding and options exercisable as of January 31, 2007 was $125,000 and $108,000, respectively. The aggregate intrinsic value of the 73,587 options which vested during the six months ended

January 31, 2007 was $2,000. The aggregate intrinsic value of the 875 options exercised during the six months ended January 31, 2007 was less than $1,000.

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 in accordance with SEC Staff Accounting Bulletin No. 101, “Revenue Recognition,” 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 owns 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 and the Company realized an extraordinary gain on purchase of $217,000.

After working with Cortelco Shanghai, the Company concluded that its direct eOn China sales team better fits its China strategy. Additionally, Cortelco Shanghai traditionally has kept its books and records in accordance with Chinese accounting standards instead of U.S. accounting standards. The Company had concerns that the costs associated with Cortelco Shanghai meeting the Sarbanes-Oxley internal control procedures and documentation requirements in the future would be prohibitively expensive.

On December 31, 2005, the Company sold its 54.14% interest in Cortelco Shanghai to the 45.86% minority holder, Shanghai Fortune Telecommunications Technology Development Co. Ltd. (“Shanghai Fortune”) and members of management of Cortelco Shanghai for $1,838,000, including dividends of $496,000 resulting in a gain on disposal of $303,000 (for the six months ended January 31, 2007, the Company had recorded $278,000). 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.”

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

	Three Months Ended January 31, 2006	Six Months Ended January 31, 2006
REVENUE		
Net third party revenue	$ 1,526	$ 3,662
Net related party revenue	399	734
Total revenue	1,925	4,396
COST OF REVENUE		
Third party cost of revenue	1,285	3,146
Related party cost of revenue	209	279
Total cost of revenue	1,494	3,425
Gross profit	431	971
OPERATING EXPENSE		
Selling, general and administrative	136	451
Total operating expense	136	451
Income from operations	295	520
Interest income	9	18
Other income, net	7	7
Income from operations before income taxes and minority interest	311	545
Income tax expense	(36)	(72)
Income from operations before minority interest	275	473
Minority interest	(126)	(217)
Income from discontinued operations	$ 149	$ 256

5. Related Parties

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 Millennium and eQueue peripheral hardware. Accounts payable are paid on thirty to sixty day terms. The Company has had no significant transactions with CSHC. The following represents related party transactions for the six months ended January 31, 2007 and 2006 (in thousands):

	2007	2006
Payable to CII		
Balance at beginning of period	$ 72	$ 51
Purchases from CII	770	381
Payments to CII	(554)	(360)
Balance at end of period	$ 288	$ 72

Spark Technologies, Inc.

Aelix performs engineering development projects for Spark Technologies, Inc (“Spark”), a California company that is majority owned by David Lee, the Chief Executive Officer and majority shareholder of eOn. On November 1, 2006, the Company entered into a professional services agreement with Spark. Under the terms of the agreement, Spark is charged based upon actual personnel, actual operating costs and allocated general overhead based upon pro rata head count, plus a margin of 10% for these services. Prior to this agreement, under the terms of an engineering development agreement, Aelix billed Spark for personnel and operating costs directly attributable to engineering work on Spark projects and allocated general overhead based upon pro rata head count. The following represents related party transactions for the six months ended January 31, 2007 and 2006 (in thousands):

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	2007	2006
Receivable from Spark		
Balance at beginning of period	$ 27	$ 19
Aelix engineering development	265	140
Payments received from Spark	(192)	(111)
Balance at end of period	$ 100	$ 48

	2007	2006
Payable to Spark		
Balance at beginning of period	$ 1	$ 106
Deposit received from Spark	93	—
Engineering services received from Spark	—	2
eOn China engineering development	(94)	(101)
Balance at end of period	$—	$ 7

6. Inventories

Inventories consist of the following as of January 31, 2007 and July 31, 2006 (in thousands):

	2007	2006
Raw materials and purchased components	$ 518	$ 482
Finished goods	2,980	2,950
Total	3,498	3,432
Inventory obsolescence	(1,172)	(1,265)
Inventory	$ 2,326	$ 2,167

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 product 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. The following table summarizes the activity related to the product warranty liability during the six months ended January 31, 2007 and 2006 (in thousands):

	2007	2006
Beginning balance	$150	$228
Warranty cost incurred	(43)	(71)
Accrued warranty cost	1	49
Ending balance	$108	$206

8. Changes in Stockholders' Equity

The following represents the changes in stockholders' equity for the six months ended January 31, 2007 (in thousands, excluding share data):

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	Common Stock		Additional Paid-In	Treasury Stock		Accumulated	Total Stockholders'
	Shares	Amount	Capital	Shares	Amount	Deficit	Equity
Balance at July 31, 2006	14,128,922	$ 14	$ 55,030	(676,900)	$(1,502)	$ (43,735)	$ 9,807
Net loss	—	—	—	—	—	(975)	(975)
Issuance of common stock for employee stock options	875	—	1	—	—	—	1
Issuance of common stock under employee stock purchase plan	9,254	—	10	—	—	—	10
Stock based compensation expense	—	—	158	—	—	—	158
Balance at January 31, 2007	14,139,051	$ 14	$ 55,199	(676,900)	$(1,502)	$ (44,710)	$ 9,001

9. Commitments and Contingencies

(a) Operating Leases

On March 18, 2007, the Company's lease for 40,000 sq. ft. of office and warehouse space in Kennesaw, Georgia will expire. The Company is involved in negotiations to secure approximately 10,000 sq. ft. of space. The reduced space is expected to be adequate to meet the Company's needs and will not result in a disruption in operations.

(b) Commitments

At January 31, 2007, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $1,621,000.

(c) Spark Purchase Option

On March 31, 2006, the Company entered into an Acquisition Option Agreement ("the Agreement") with Spark Technologies, Inc. Spark designs and markets accessories for wireless telephones. Its primary product, CellStik™, is a small memory device that allows users to backup, enter, edit and transfer their cell phone products. 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, the Company's Chief Executive Officer and a major shareholder, to repurchase the Company's Spark shares for $300,000 within 60 days. In addition, in the event that Spark discontinues operations or liquidates, David Lee is required to purchase the shares for $300,000 within 60 days.

(d) Litigation

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. Subsequent Event

On February 23, 2007, the Company's newly formed subsidiary, eOn IP Voice, Inc. purchased certain accounts receivable, inventory and fixed assets and assumed certain liabilities of One IP Voice, Inc. for $150,000. These assets, net of liabilities were purchased under an order of the United States Bankruptcy Court Chapter 11 Order Authorizing Sale of Assets at Auction Out of the Ordinary Course of Business. The Company will account for this purchase as an asset purchase in accordance with generally accepted accounting principles.

Item 2. – Management's Discussion and Analysis or Plan 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

eOn Communications Corporation ("eOn" or the "Company") is a global provider of innovative communications solutions. Backed with over 20 years of telecommunications engineering expertise, the Company's solutions enable its 8,000 customers to easily leverage advanced technologies in order to communicate more effectively. eOn's 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 Architecture (SOA). Whether businesses are looking to leverage the advantages of enterprise IP telephony or advanced contact center technologies, eOn Communications delivers proven, IP-ready products that improve business performance.

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 owns a 54.14% ownership interest in Cortelco Shanghai, from Cortelco Systems Holding Corporation ("CSHC").

After working with Cortelco Shanghai, we concluded that our direct eOn sales team better fits our China strategy. Additionally, Cortelco Shanghai traditionally has kept its books and records in accordance with Chinese accounting standards instead of U.S. accounting standards. We had concerns that the costs associated with Cortelco Shanghai meeting the Sarbanes-Oxley internal control procedures and documentation requirements in the future would be prohibitively expensive. Furthermore cash proceeds from a sale of Cortelco Shanghai could be utilized to build other growth opportunities.

On December 31, 2005, the Company sold its 54.14% interest in Cortelco Shanghai to the 45.86% minority holder, Shanghai Fortune Telecommunications Technology Development Co. Ltd. ("Shanghai Fortune") and members of management of Cortelco Shanghai. Accordingly, the results of operations of Cortelco Shanghai have been retroactively restated as discontinued operations in accordance with generally accepted accounting principles in the United States.

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 2, "Summary of Significant Accounting Policies," in Part II, Item 7, "Financial Statements," of our Annual Report on Form 10-KSB for the year ended July 31, 2006.

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 product 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.

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.

Stock-Based Compensation

We adopted the provisions of, and account for stock-based compensation in accordance with, SFAS 123R during the first quarter of fiscal 2007. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

We currently use the Black-Scholes option pricing model to determine the fair value of stock options and employee stock purchase plan shares. The determination of the fair value of stock-based payment awards on the date of grant using an option-pricing model is affected by our stock price as well as assumptions regarding a number of complex and subjective variables. These variables include our expected stock price volatility over the term of the awards, actual and projected employee stock option exercise behaviors, risk-free interest rate and expected dividends.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model that uses the assumptions in the following table. Expected volatilities are based on historical daily closing prices adjusted for our expected future volatility. The Company believes that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. The Company uses historical information to calculate expected life of option grants. The Company believes that historical information is currently reflective of the economic life of outstanding option grants. The dividend yield is determined by dividing the expected per share dividend during the coming year by the average fair market value of the stock during the quarter. The Company has not historically declared any cash dividends on our common stock. We currently intend to retain any retained earnings to finance the operation and expansion of our business and therefore do not expect to pay cash dividends on our common stock in the foreseeable future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The estimated fair value of the employee stock options are amortized to expense using the straight-line method over the vesting period.

If factors change and we employ different assumptions for estimating stock-based compensation expense in future periods or if we decide to use a different valuation model, the future periods may differ significantly from what we have recorded in the current period and could materially affect our operating income, net income and net income per share.

The Black-Scholes option-pricing model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable, characteristics not present in our option grants and employee stock purchase plan shares. Existing valuation models, including the Black-Scholes and lattice binomial models, may not provide reliable measures of the fair values of our stock-based compensation. Consequently, there is a risk that our estimates of the fair values of our stock-based compensation awards on the grant dates may bear little resemblance to the actual values realized upon the exercise, expiration, early termination or forfeiture of those stock-based payments in the future. Certain stock-based payments, such as employee stock options, may expire worthless or otherwise result in zero intrinsic value as compared to the fair values originally estimated on the grant date and reported in our financial statements. Alternatively, value may be realized from these instruments that are significantly higher than the fair values originally estimated on the grant date and reported in our financial statements. There currently is no market-based mechanism or other practical application to verify the reliability and accuracy of the estimates stemming from these valuation models, nor is there a means to compare and adjust the estimates to actual values.

The guidance in SFAS 123R and SAB 107 is relatively new. The application of these principles may be subject to further interpretation and refinement over time. There are significant differences among valuation models, and there is a possibility that we will adopt different valuation models in the future. This may result in a lack of consistency in future periods and materially affect the fair value estimate of stock-based payments. It may also result in a lack of comparability with other companies that use different models, methods and assumptions.

See Note 2 for further information regarding the SFAS 123R disclosures.

Deferred Taxes

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Because of substantial losses from inception through fiscal year 2006, the Company has available net operating loss ("NOL") carry forwards of $18,256,000.

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, 2007 compared to the Three Months Ended January 31, 2006

Net Revenue

Net revenue decreased approximately 50% to $1,487,000 (including $168,000 of related party revenue) for the three months January 31, 2007 compared to $2,964,000 for the same period of the previous year. The decrease reflects a decrease in Millennium revenue and a decrease in eQueue revenue over the same period of the previous year. The decrease is due to declines in both Millennium and eQueue system sales. Sales of Millennium systems were adversely impacted by seasonal slowdowns traditionally experienced in key US government and education market segments along with delays encountered with the release of planned product enhancements. Sales of eQueue systems were off largely due to a decline in contributions from US government and education market segments and due to the continued slow ramp up of sales anticipated from international markets.

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 58% to $817,000 for the three months ended January 31, 2007 from $1,940,000 for the same period of the previous year, as a result of lower revenue and lower margins. Millennium gross profit and eQueue gross profit decreased over the same period last year. Gross margin % decreased to approximately 55% for the three months ended January 31, 2007 compared with gross margin of approximately 65% for the same period of the previous year, primarily the result of product 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 5% to $1,120,000 for the three months ended January 31, 2007, from $1,176,000 for the same period of the previous year. The reduction reflects lower employee compensation (resulting from reductions in workforce) and employee travel costs, partially offset by higher bad debt expense and non-cash compensation expense resulting from the adoption of SFAS 123R.

Research and Development

Research and development expense consists primarily of personnel and related facility costs for our engineering staff. Research and development expenses increased approximately 33% to $768,000 for the three months ended January 31, 2007 from $577,000 for the same period of the previous year. The increase primarily reflects higher employee travel resulting from international travel to India and China and higher non-cash compensation expense resulting from the adoption of SFAS 123R.

Other Expense, Net

Other expense, net is primarily comprised of bank service charges, franchise taxes, currency differences and gains or losses from disposal of fixed assets. Other expense, net was $24,000 for the three months ended January 31, 2007 compared to $40,000 for the same period of the previous year. The decrease is a result of $16,000 in costs related to the closure of the Korean office during the three months ended January 31, 2006.

Interest Income

Interest income was $80,000 for the three months ended January 31, 2007 compared to $33,000 for the same period of the previous year. The increase reflects an increase in marketable securities and higher rates of return compared to the same period of the previous year.

For the Six Months Ended January 31, 2007 compared to the Six Months Ended January 31, 2006

Net Revenue

Net revenue decreased approximately 32% to $4,195,000 (including $168,000 of related party revenue) for the six months January 31, 2007 compared to $6,136,000 for the same period of the previous year. The decrease is due to declines in both Millennium and eQueue system sales. Sales of Millennium systems were adversely impacted by seasonal slowdowns traditionally experienced in key US government and education market segments along with delays encountered with the release of planned product enhancements. Sales of eQueue systems were off largely due to a decline in contributions from US government and education market segments and due to the continued slow ramp up of sales anticipated from international markets. Additionally, effective July 31, 2006 a large eQueue maintenance contract was not renewed.

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 36% to $2,582,000 for the six months ended January 31, 2007 from $4,052,000 for the same period of the previous year, as a result of lower revenue and lower margins. Millennium gross profit and eQueue gross profit decreased over the same period last year. Gross margin % decreased to approximately 62% for the six months ended January 31, 2007 compared with gross margin of approximately 66% for the same period of the previous year, primarily the result of product 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 11% to $2,177,000 for the six months ended January 31, 2007, from $2,446,000 for the same period of the previous year. The improvement reflects lower employee compensation (resulting from reductions in workforce) and employee travel costs, partially offset by higher bad debt expense and non-cash compensation expense resulting from the adoption of SFAS 123R.

Research and Development

Research and development expense consists primarily of personnel and related facility costs for our engineering staff. Research and development expenses increased approximately 21% to $1,510,000 for the six months ended January 31, 2007 from $1,248,000 for the same period of the previous year. The increase primarily reflects higher employee travel resulting from international travel to India and China and higher non-cash compensation expense resulting from the adoption of SFAS 123R.

Other Expense, Net

Other expense, net is primarily comprised of bank service charges, franchise taxes, currency differences and gains or losses from disposal of fixed assets. Other expense, net was $30,000 for the six months ended January 31, 2007 compared to $64,000 for the same period of the previous year. The decrease reflects lower bank service charges and more favorable currency exchange differences during the three months ended January 31, 2007. Additionally, during the six months ended January 31, 2006, the Company incurred $16,000 in costs related to the closure of the Korean office.

Interest Income

Interest income was $160,000 for the six months ended January 31, 2007 compared to $67,000 for the same period of the previous year. The increase reflects an increase in marketable securities and higher rates of return compared to the same period of the previous year.

Liquidity and Capital Resources

As of January 31, 2007, we had cash and cash equivalents of $1,404,000 and $5,200,000 in short-term marketable securities, and working capital of $8,007,000. Our short-term marketable securities are primarily invested in taxable auction rate securities with frequent rate resets.

Our operating activities resulted in a net cash outflow of $296,000 for the six months ended January 31, 2007 compared to net cash outflow of $547,000 for the same period of the previous year. The net operating cash outflow for the current period primarily reflects lower trade accounts receivable and lower accounts receivable from related parties, partially offset by net loss (adjusted for non-cash items), higher inventories and reduced accrued expenses and other. The net operating cash outflow for the prior year period primarily reflects net income (adjusted for non-cash items), partially offset by higher accounts receivable, prepaid and other current assets and related party accounts receivable.

Our investing activities resulted in a net cash inflow of $603,000 for the six months ended January 31, 2007 compared to a net cash inflow of $347,000 for the same period of the previous year. Cash provided by investing activities for the six months ended January 31, 2007 was a result of net marketable securities disposals and proceeds received from the sale of Cortelco Shanghai. Cash provided by investing activities for the same period of the previous year was a result of disposals of marketable securities, partially offset by an increase in related party notes receivable and capital expenditures.

Our financing activities resulted in a cash inflow of $10,000 for the six months ended January 31, 2007 compared to a cash inflow of $24,000 for the same period of the previous year. Cash provided by financing activities in the current period and prior period were due to purchases under the Employee Stock Purchase Plan and employee stock options exercised.

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 approximately $5,000,000 in capital expenditures.

On February 23, 2007, the Company’s newly formed subsidiary, eOn IP Voice, Inc. purchased certain accounts receivable, inventory and fixed assets and assumed certain liabilities of One IP Voice, Inc. for $150,000. These assets, net of liabilities were purchased under an order of the United States Bankruptcy Court Chapter 11 Order Authorizing Sale of Assets at Auction Out of the Ordinary Course of Business. The Company will account for this purchase as an asset purchase in accordance with generally accepted accounting principles.

The Company has incurred substantial net operating losses since inception and has had negative cash flows from operating activities through July 31, 2006; resulting in an accumulated deficit of $43,735,000. During the six months ended January 31, 2007, cash and cash equivalents and short-term marketable securities decreased to $6,604,000 from $6,684,000, primarily as a result of funding operating losses offset by accounts receivable cash collections.

The Company had a loss from continuing operations of $975,000 for the six months ended January 31, 2007 versus income from continuing operations of $361,000 for the same period in the prior year. As of January 31, 2007, the Company had $6,604,000 in cash and cash equivalents and short-term marketable securities in the United States available to fund operations.

The Company is dependent on available cash, short-term marketable securities 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 believe that the cash and short-term marketable 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 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

(a) Operating Leases

On March 18, 2007, the Company's lease for 40,000 sq. ft. of office and warehouse space in Kennesaw, Georgia will expire. The Company is involved in negotiations to secure approximately 10,000 sq. ft. of space. The reduced space is expected to be adequate to meet the Company's needs and will not result in a disruption in operations.

(b) Commitments

At January 31, 2007, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $1,621,000.

(d) Spark Purchase Option

On March 31, 2006, the Company entered into an Acquisition Option Agreement ("the Agreement") with Spark Technologies, Inc. Spark designs and markets accessories for wireless telephones. Its primary product, CellStik™, is a small memory device that allows users to backup, enter, edit and transfer their cell phone products. 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, the Company's Chief Executive Officer and a major shareholder, to repurchase the Company's Spark shares for $300,000 within 60 days. In addition, in the event that Spark discontinues operations or liquidates, David Lee is required to purchase the shares for $300,000 within 60 days.

(d) Litigation

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.

Our communications servers face intense competition from many companies that have targeted our markets.

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

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

- Our current and potential competitors can be grouped into the following categories:
- Contact center vendors, such as Avaya, Nortel Networks, Aspect Communications, and Rockwell;
- Data communication equipment suppliers, such as Cisco Systems and 3COM;
- Email management and web center software suppliers, such as eGain, Kana Communications, and Live Person; and
- Voice communications equipment suppliers, such as Nortel Networks, Avaya, Mitel, NEC, Toshiba, and Siemens.

Many of our current and potential competitors have significantly greater financial, technical, marketing, customer service and other resources, greater name and brand recognition and a larger installed customer base than we do. Therefore, our competitors may be able to respond to new or emerging technologies and changes faster than we can. They may also be able to devote greater resources to the development, promotion and sale of their products.

Actions by our competitors could result in price reductions, reduced margins and loss of market share, any of which would damage our business. We cannot assure you that we will be able to compete successfully against these competitors.

If we cannot expand our indirect sales channel to sell our eQueue products, our ability to generate revenue would be harmed.

We sell our eQueue communications servers both directly and indirectly through dealers and value added resellers that have experience in data as well as voice communications. We may not be able to expand this indirect sales channel. In addition, new distribution partners may devote fewer resources to marketing and supporting our products than to our competitors' products and could discontinue selling our products at any time in favor of our competitors' products or for any other reason.

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

The uncertainty of our sales cycle makes the timing of sales difficult to predict and may cause fluctuations in our quarterly operating results. Our sales cycles generally vary from four to twelve months for our eQueue products and from one to six months for our Millennium voice switching platform. The purchase of our products may involve a significant commitment of our customers' time, personnel, and financial and other resources. Also, it is difficult to predict the timing of indirect sales because we have little control over the selling activities of our dealers and value added resellers.

We incur substantial sales and marketing expenses and spend significant management time before customers place orders with us, if at all. Revenues from a specific customer may not be recognized in the quarter in which we incur related sales and marketing expense, which may cause us to miss our revenues or earnings expectations.

We face many risks from expanding into foreign markets.

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

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

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

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

Our products must respond to rapidly changing market needs and integrate with changing protocols to remain competitive.

The markets for our products are characterized by rapid technological change, frequent new product introductions, uncertain product life cycles and changing customer requirements. If we are not able to rapidly and efficiently develop new products and improve existing products to meet the changing needs of our customers and to adopt changing communications standards, our business, operating results and financial condition would be harmed.

Key features of our products include integration with standard protocols, computer telephony integration and automatic call distribution applications and protocols, operating systems and databases. If our products cannot be integrated with third-party technologies or if they do not respond to changing market needs, we could be required to redesign our products. Redesigning any of our products may require significant resources and could harm our business, operating results and financial condition.

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 September 30, 2006, our executive officers, directors and principal stockholders and their affiliates beneficially owned 4,563,656 common shares, or 32.35% 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, 2007.

PART II - OTHER INFORMATION

Item 1. – Legal Proceedings

None.

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

None.

Item 3. – Defaults Upon Senior Securities

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None.

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

None.

Item 5. – Other Information

None.

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 16, 2007	\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 16, 2007

/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 16, 2007

/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 16, 2007

/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 16, 2007

/s/ Stephen R. Bowling

Stephen R. Bowling
Chief Financial Officer