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, 2008.

OR

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

Commission File Number: 000-26399

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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)

Check whether the issuer: (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 past 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 a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

2,734,228 shares of common stock, $0.005 par value, were outstanding as of May 31, 2008.

Traditional Small Business Disclosure Format? Yes ☐ No ☒

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EON COMMUNICATIONS CORPORATION
FORM 10-QSB
QUARTER ENDED APRIL 30, 2008

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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 amounts)

	April 30, 2008 (unaudited)	July 31, 2007
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,360	$ 2,256
Marketable securities	—	3,400
Trade accounts receivable, net of allowance of $718 and $694, respectively	1,088	1,781
Trade accounts receivable - related party	40	117
Inventories	2,795	2,348
Prepaid and other current assets	313	118
Current assets of discontinued operations	—	119
Total current assets	5,596	10,139
Property and equipment, net	216	298
Intangibles, net	272	334
Investments	1,200	300
Long-term marketable securities	925	—
Non-current assets of discontinued operations	—	135
Total assets	$ 8,209	$ 11,206
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 417	$ 432
Trade accounts payable - related party	250	337
Accrued expenses and other	1,256	1,205
Current liabilities of discontinued operations	—	16
Total current liabilities	1,923	1,990
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, (10,000,000 shares authorized, no shares issued and outstanding)	—	—
Common stock, $0.005 par value (10,000,000 shares authorized, 2,869,608 and 2,849,629 shares issued, respectively)	14	14
Additional paid-in capital	55,926	55,769
Treasury stock, at cost (135,380 shares)	(1,502)	(1,502)
Accumulated deficit	(48,179)	(45,065)
Accumulated other comprehensive income	27	—
Total stockholders' equity	6,286	9,216
Total liabilities and stockholders' equity	$ 8,209	$ 11,206

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended April 30,		Nine Months Ended April 30,	
	2008	2007	2008	2007
REVENUE				
Third party revenue	$ 1,387	$ 3,359	$ 5,047	$ 7,386
Related party revenue	127	195	343	363
Net revenue	1,514	3,554	5,390	7,749
COST OF REVENUE				
Third party cost of revenue	635	1,487	2,103	2,944
Related party cost of revenue	116	180	316	336
Cost of revenue	751	1,667	2,419	3,280
Gross profit	763	1,887	2,971	4,469
OPERATING EXPENSE				
Selling, general and administrative	1,150	1,086	3,297	3,263
Research and development	703	715	2,140	2,225
Other expense	123	(2)	160	28
Total operating expense	1,976	1,799	5,597	5,516
Loss from continuing operations	(1,213)	88	(2,626)	(1,047)
Interest income	16	59	96	219
(Loss) income from continuing operations before income taxes	(1,197)	147	(2,530)	(828)
Income tax expense	—	—	—	—
(Loss) income from continuing operations after income taxes	(1,197)	147	(2,530)	(828)
DISCONTINUED OPERATIONS				
Loss from discontinued operations including income on disposal of $13 for the three and nine months ended April 30, 2008, net of tax of $0	(7)	(127)	(584)	(127)
Loss from discontinued operations	(7)	(127)	(584)	(127)
Net (loss) income	$ (1,204)	$ 20	$(3,114)	$ (955)
COMPREHENSIVE INCOME (LOSS)				
Net (loss) income	$ (1,204)	$ 20	$(3,114)	$ (955)
Unrealized losses on available-for-sale securities	(75)	—	(75)	—
Foreign currency translation adjustment	37	—	102	—
Comprehensive (loss) income	$ (1,242)	$ 20	$(3,087)	$ (955)
Weighted average shares outstanding :				
Basic	2,734	2,713	2,722	2,712
Diluted	2,734	2,740	2,722	2,712
Basic (loss) income per share:				
From continuing operations	$ (0.44)	$ 0.05	$ (0.93)	$ (0.31)
From discontinued operations, net of tax	—	(0.05)	(0.21)	(0.05)
Basic (loss) per share	$ (0.44)	$ —	$ (1.14)	$ (0.36)
Diluted (loss) income per share:				
From continuing operations	$ (0.44)	$ 0.05	$ (0.93)	$ (0.31)
From discontinued operations, net of tax	—	(0.05)	(0.21)	(0.05)
Diluted (loss) per share	$ (0.44)	$ —	$ (1.14)	$ (0.36)

See accompanying notes to the condensed consolidated financial statements.

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

	Nine Months Ended April 30, 2008	Nine Months Ended April 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(3,114)	$ (955)
Change in operating assets and liabilities of discontinued operations	238	—
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	146	236
Depreciation and amortization	175	140
Provision for allowance for doubtful accounts	53	129
Loss (gain) on disposal of property and equipment	106	(12)
Changes in net assets and liabilities		
Trade accounts receivable	577	(703)
Inventories	(447)	(266)
Prepaid and other assets	(195)	139
Trade accounts payable	(15)	54
Trade accounts receivable/payable - related party	(10)	249
Accrued expenses and other	51	(308)
Net cash used in operating activities	(2,435)	(1,297)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(137)	(69)
Proceeds from disposal of property and equipment	—	16
Investment in Symbio	(900)	—
Cash used in business acquisition	—	(150)
Purchases of marketable securities	—	(4,775)
Disposal of marketable securities	2,400	5,800
Proceeds from disposal of discontinued operations	63	89
Net cash provided by investing activities	1,426	911
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from employee stock purchase plan and stock option exercises	11	30
Net cash provided by financing activities	11	30
Effect of exchange rate changes on cash	102	—
Net decrease in cash and cash equivalents	(896)	(356)
Cash and cash equivalents, beginning of period	2,256	934
Cash and cash equivalents, end of period	$ 1,360	$ 578

See accompanying notes to the condensed consolidated financial statements.

EON COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Nine Months Ended April 30, 2008 and 2007

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, 2008 and for all periods presented.

Description of Business

eOn 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.

Interim Consolidated Financial Statements

The accompanying condensed 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 and eOn IP Voice, Inc. ("EIPV") formed on February 23, 2007. 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 consolidated financial statements be read in conjunction with the financial statements and notes thereto as of July 31, 2007 and 2006 and for each of the two years in the period ended July 31, 2007, which are included in the Annual Report on Form 10-KSB filed with the Securities and Exchange Commission.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassification

Certain amounts in the April 30, 2007 condensed consolidated financial statements have been reclassified to conform to the April 30, 2008 condensed consolidated financial statement presentation.

The Company split its common shares in a 5 to 1 reverse split effective at market close on April 18, 2008. Stock and stock option data for all periods presented have been adjusted to reflect the reverse split.

Recent Accounting Standards

The Company adopted the provisions of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "*Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109*" ("FIN 48"), on August 1, 2007. There were no unrecognized tax benefits and there was no effect on the Company's financial condition or results of operations as a result of implementing FIN 48.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal tax examinations for years before 2003. State jurisdictions that remain subject to examination range from 2002 to 2006. Management does not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as a component of income tax expense. As of the date of adoption of FIN 48, there was no accrued interest or penalties associated with any unrecognized tax benefits nor was any interest expense recognized during the quarter.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" ("SFAS 157") which defines fair value, establishes guidelines for measuring fair value and expands disclosure regarding fair value measurements. For all nonfinancial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2008 (August 1, 2009 for the Company). For all financial assets and liabilities, SFAS 157 is effective for fiscal years beginning after November 15, 2007 (August 1, 2008 for the Company). The Company is currently evaluating what impact, if any the adoption of SFAS 157 will have on its consolidated financial statements.

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 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 (August 1, 2008 for the Company). The Company does not expect SFAS 159 to have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations,* ("SFAS No. 141R"). SFAS No. 141R will change the accounting for business combinations. Under SFAS No. 141R, an acquiring entity will be required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. SFAS No. 141R will also change the accounting treatment and disclosure for certain specific items in a business combination. SFAS No. 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. Accordingly, any business combinations the Company engages in will be recorded and disclosed following existing GAAP until July 31, 2009. The Company expects SFAS No. 141R will have an impact on accounting for business combinations once adopted and the effect is dependent upon acquisitions at that time.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements-An Amendment of ARB No. 51, or SFAS No. 160.* SFAS no. 160 establishes new accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for the fiscal years beginning on or after December 15, 2008. The Company is currently evaluating what impact, if any the adoption of SFAS No. 160 will have on its consolidated financial statements.

2. Long-term Marketable Securities

At April 30, 2008, long-term marketable securities consisted of $1,000,000 (par value) of taxable auction rate securities ("ARS"), which are variable-rate debt securities and have a long-term maturity with the interest being reset through Dutch auctions that are typically held every 7, 28, or 35 days. The securities were rated AAA and are collateralized by student loans guaranteed by the U.S Department of Education; they have historically traded at par and are callable at par at the option of the issuer. Interest is typically paid at the end of each auction period.

There is no assurance that future auctions on these auction rate securities will succeed and, as a result, our ability to liquidate our investment and fully recover the par value of our investment in the near term may be limited or not exist. At April 30, 2008, there was insufficient observable ARS market information available to determine the fair value of these securities. Management determined that the estimated market value of the Company's ARS at April 30, 2008 was $925,000, which reflects an approximate temporary impairment of $75,000 to the par value of $1,000,000. We believe this temporary impairment is primarily attributable to the limited liquidity of these investments.

We have no reason to believe that any of the underlying issuers of our securities are presently at risk of default. Through June 13, 2008, we have continued to receive interest payments in accordance with their terms. We believe we will be able to liquidate our investments without significant loss primarily due to the government guarantee of the underlying securities. However, due to the uncertainty in the ARS market, we believe the recovery period for these investments may be longer than twelve months and as a result, we have classified these investments as long-term as of April 30, 2008.

3. Stock Based Compensation

Equity Incentive Plans

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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. 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. The Board granted 80,500 fully vested shares of stock to twenty-two non executive employees on January 30, 2008. These shares were converted to 16,100 shares on April 18, 2008 when the Company's common shares were split in a 5 to 1 reverse split. These shares were issued at no cost to the employee and, on the grant date, had a fair market value of approximately $35,000. During the nine months ended April 30, 2008, there were no options to purchase common stock granted by the Company.

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 shares available under the plan were converted to 200,000 shares on April 18, 2008 when the Company's common shares were split in a 5 to 1 reverse split. 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. During September 2007 and March 2008, employees purchased 15,665 shares and 3,712 shares, respectively, under the plan. These shares were converted to 3,133 and 743 shares after the reverse stock split effective April 18, 2008.

Determining Fair Value

The fair value of each option award is estimated on the date of grant using the Black-Scholes option-pricing model. 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.

Total stock-based compensation recognized for the nine months ended April 30, 2008, is as follows:

Income Statement Classifications	Option Grants	Stock Grants	ESPP	Total
Selling, general and administrative	$ 98,000	$ 8,000	$1,000	$107,000
Research and development	10,000	27,000	2,000	39,000
Total	$108,000	$35,000	$3,000	$146,000

As of April 30, 2008, the Company has total unrecognized compensation cost of $28,000 related to unvested stock options under the Plans. The Company expects these costs will be recognized on a declining basis ending during fiscal year 2010.

General Stock Option Information

Activity in the Company's stock option plans since July 31, 2007 is as follows:

	Shares Available for Grant	Options Outstanding	Weighted Average Exercise Price
Options at July 31, 2007	87,332	330,728	$ 15.63
Granted	(16,100)		—
Exercised			—
Cancelled	65,171	(68,591)	16.62
Options at April 30, 2008	136,403	262,137	$ 15.37

Information regarding the stock options outstanding under the Company's stock option plans at April 30, 2008 is summarized as follows:

Range of Exercise Prices	Outstanding at April 30 2008	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at April 30 2008	Weighted Average Exercise Price
$ 0.00 — $25.00	222,260	5.8 years	$ 9.89	208,537	$ 10.14
$ 25.01 — $50.00	28,357	.8 years	40.96	28,357	40.96
$ 50.01 — $75.00	10,920	1.4 years	54.64	10,920	54.64
$ 75.01 — $125.00	600	1.8 years	121.25	600	121.25
	262,137	5.1 years	$ 15.37	248,414	$ 15.88

The aggregate intrinsic value of both options outstanding and options exercisable as of April 30, 2008 was $0. The aggregate intrinsic value of the 60,287 options which vested during the nine months ended April 30, 2008 was $0. During the nine months ended April 30, 2008, no options to purchase common stock were exercised.

4. Revenue Recognition

The Company's revenues from its three product lines are the result of separate, individual deliverables:

	Type of Revenues Earned		
Product Line	Equipment/Software	Professional Services	Maintenance Contracts
Millennium PBX System	Individual sale		
eQueue Contact Center System	Individual sale	Individual sale	Individual sale
VOIP Telephones	Individual sale		

Because the eQueue system is very flexible in its applications, some customers contract for professional services to tailor their system to specific requirements. Professional services are invoiced separately upon completion.

eQueue customers can also elect to enter into maintenance contracts to receive software updates and free technical support. Revenue is booked quarterly for each maintenance period as provided.

The VOIP telephones can be deployed with either the Millennium or eQueue systems to provide lower call costs as well as flexible telecom management across multiple locations. These phones may be sold with a new system, but are often sold subsequent to the system sale.

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's 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*."

5. eOn IP Voice, Inc. and Discontinued Operations

On February 23, 2007, the Company's subsidiary, EIPV purchased certain accounts receivable, inventory and fixed assets and assumed certain liabilities of One IP Voice, Inc. for $150,000 in order to enter the hosted VoIP Services market. 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 results of EIPV were included in the Company's consolidated financial statements beginning February 23, 2007, the date the assets were purchased. The Company accounted for this purchase as an acquisition in accordance with SFAS No. 141, "*Business Combinations*". A summary of the net assets acquired as of February 28, 2007 is as follows (in thousands):

Current assets acquired	$ 114
Long-term assets acquired	153
Current liabilities assumed	(117)
Net assets acquired	$ 150

During October 2007, the Company committed to a plan to discontinue offering EIPV Business Connect hosted products and services. During the quarter ended April 30, 2008, the Company sold the assets of EIPV for approximately $90,000, of which $63,000 was received at April 30, 2008 and $27,000 remains outstanding. EIPV asset and liability balances included in assets and liabilities of discontinued operations as of July 31, 2007 and EIPV activity for the three and nine months ended April 30, 2008 are as follows (in thousands):

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	As of July 31, 2007
Accounts receivable, net	$ 50
Inventories	34
Prepaid and other assets	35
Property and equipment, net	135
Accounts payable	$ 1
Accrued and other expenses	15
Net assets of discontinued operations	$ 238

	Three months Ended April 30, 2008	Nine months Ended April 30, 2008
Revenue	$ —	$ 43
Cost of revenue	—	120
Impaired user licenses	—	28
Inventory obsolescence	—	39
Gross profit	—	(144)
General and administrative expense	20	341
Impaired property and equipment	—	57
Allowance for bad debts	—	55
Loss from discontinued operations	(20)	(597)
Income on disposal	13	13
Loss from discontinued operations	$ (7)	$ (584)

6. Related Parties

Cortelco, Inc. and Cortelco Systems Holding Corporation

Cortelco, Inc. ("CI") is a subsidiary of Cortelco Systems Holding Corporation ("CSHC") and a supplier of Millennium and eQueue peripheral hardware. David Lee, the Company's Chief Executive Officer, is the Chairman and a controlling shareholder of CSHC. Accounts payable are paid on thirty to sixty day terms. The following represent related party transactions for the nine months ended April 30, 2008 and 2007 (in thousands):

	2008	2007
Payable to CII		
Balance at beginning of period	$ 300	$ 72
Purchases from CII	865	1,601
Payments to CII	(915)	(1,272)
Balance at end of period	$ 250	$ 401

Cortelco Systems Puerto Rico

Cortelco Systems Puerto Rico ("CSPR") was a wholly-owned subsidiary of the Company until August 28, 2001, when it was spun off to the shareholders of eOn. David Lee is a significant shareholder of CSPR. Since the spin-off, the Company has not had significant transactions with CSPR. CSPR had purchases from the Company totaling $4,000 and paid the Company $13,000 during the nine months ending April 30, 2008. At April 30, 2008 there was no outstanding balance receivable from CSPR.

Spark Technologies, Inc.

Aelix and eOn China perform engineering development projects for Spark Technologies, Inc ("Spark"), a California company that is majority owned by David Lee. 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, the Company 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 represent related party transactions for the nine months ended April 30, 2008 and 2007 (in thousands):

	2008	2007
Receivable from Spark		
Balance at beginning of period	$ 108	$ 27
Related party billings for engineering development and costs	352	467
Costs offset against operating expenses	6	
Cash payments received from Spark	(317)	(386)
Payables offset against accounts receivable	(109)	
Balance at end of period	$ 40	$ 108

	2008	2007
Payable to Spark		
Balance at beginning of period	$ 37	$ 1
Deposit Received from Spark		$ 100
Operating costs billed to eOn	72	
Balance offset against receivable from Spark	(109)	(100)
Balance at end of period	$ —	$ 1

During July 2007, Spark gave notice of its intent to terminate the engineering development work performed by Aelix in India. Effective May 1, 2008, eOn transferred the Spark outsourcing contract to Symbio in return for Symbio assuming certain rent and facility obligations in Shanghai. The net impact of this transfer will be to increase operating profit by approximately $10,000 per quarter.

Symbio Group

On August 1, 2007 and August 27, 2007, the Company made strategic investments in Symbio Group ("Symbio") of $500,000 and $400,000 for 250,000 and 200,000, respectively, shares or a total of approximately 3% of Symbio Investment Corporation. Symbio is a leading China-based provider of software development, testing, and globalization outsourcing services to multinational companies. The investment is expected to establish eOn as the preferred provider of telephony and contact center solutions for Symbio's outsourcing engagements requiring customer interaction management. eOn also gains the ability to provide Symbio outsourcing services to its customer base. Symbio is a privately held entity and the Company accounts for its 3% investment by the cost method.

At the time of the second investment in Symbio for $400,000, the Company received a put option from David Lee, effective beginning January 1, 2008 and expiring on January 1, 2011. The put option allows the Company to sell to David Lee a maximum aggregate of 200,000 shares of its investment in Symbio for a per share price of $2.00.

In consideration of the put option, in the event that the 200,000 shares are sold without exercise of the put option before January 1, 2011, the Company has agreed to pay David Lee 50% of the proceeds in excess of $1,000,000.

In conjunction with the purchase of these shares, David Lee was appointed to the board of directors of Symbio.

7. Inventories

Inventories consist of the following (in thousands):

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	April 30, 2008	July 31, 2007
Raw materials and purchased components	$ 601	$ 645
Finished goods	3,234	2,780
Total	3,835	3,425
Inventory obsolescence reserve	(1,040)	(1,077)
Inventory	$ 2,795	$ 2,348

8. 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 provide for these future claims in the period that revenue is recognized. The cost of satisfying warranty claims, which approximates 1% - 2% of product revenues, has historically been comprised of materials and direct labor costs. The Company performs 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 requirements of FIN 45 are applicable to the Company's product warranty liability. The following table summarizes the activity related to the product warranty liability during the nine months ended April 30, 2008 and 2007 (in thousands):

	2008	2007
Beginning balance	$133	$150
Warranty cost incurred	(47)	(52)
Accrued warranty cost	58	18
Ending balance	$144	$116

9. Changes in Stockholders' Equity

The following represent the changes in stockholders' equity for the nine months ended April 30, 2008 (in thousands, excluding share data which has been adjusted for the 5 to 1 reverse split effective April 18, 2008):

	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, 2007	2,849,629	$ 14	$ 55,769	(135,380)	$(1,502)	$ (45,065)	$ —	$ 9,216
Issuance of common stock under employee stock purchase plan	3,879	—	11	—	—	—	—	11
Stock based compensation expense	16,100	—	146	—	—	—	—	146
Comprehensive income (loss):								
Foreign currency translation adjustments							102	102
Unrealized losses on available-for-sale securities							(75)	(75)
Net loss	—	—	—	—	—	(3,114)	—	(3,114)
Comprehensive loss	—	—	—	—	—	—	—	(3,087)
Balance at April 30, 2008	2,869,608	$ 14	$ 55,926	(135,380)	$(1,502)	$ (48,179)	$ 27	$ 6,286

10. Commitments and Contingencies

(a) Operating Leases

On September 1, 2007, the Company entered into a Shared Space Agreement ("Agreement") with Sylantro Systems Corporation for office space in Shanghai, China. Under the terms of the Agreement, the Company shares a portion of the premises consisting of 687 square meters or 75% of the premises through November 30, 2009. The monthly rent for this space is approximately $11,000 and replaces the space that was previously occupied by Company employees in Shanghai, China. Effective May 1, 2008, Symbio will be responsible for the majority of the rent and facility costs.

(b) Commitments

At April 30, 2008, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $265,000.

(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 1,733,000 shares (8,665,000 shares before the reverse split) of the Company's Common Stock. The Company had the right to give notice of its intent to exercise this option at any time prior to close of business on March 31, 2008. After evaluating the current status of Spark and the option, the Board of Directors decided to not exercise the option.

The Agreement further provides that in the event the Company does not exercise this option, 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. David Lee purchased the shares and paid the Company $300,000 on June 13, 2008.

(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.

11. Cortelco Merger Agreement

On December 11, 2007, the Company executed a definitive Agreement and Plan of Merger to acquire Cortelco Systems Holding Corporation ("Cortelco") for up to $11,000,000 in stock and cash. The companies are discussing a possible restructuring of the merger agreement, but no revised agreement has been executed. There is no assurance that a new agreement will be reached or that the merger transaction will be closed.

On March 8, 2008, the Company and Cortelco entered into an outsourcing agreement whereby Cortelco will provide management for all U.S. operations for eOn. Included in the management services are sales, marketing, product management, engineering, technical support, quality assurance, accounting and information technology. The Company anticipates that it will continue to utilize Cortelco's management expertise on an outsourcing basis irrespective of whether the proposed Cortelco merger closes.

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

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 February 23, 2007, the Company's subsidiary, eOn IP Voice, Inc. ("EIPV") purchased certain accounts receivable, inventory and fixed assets and assumed certain liabilities of One IP Voice, Inc. for $150,000 in order to enter the hosted VoIP Services market. 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 results of EIPV are included in the Company's consolidated financial statements beginning February 23, 2007, the date the assets were purchased.

During October 2007, the Company committed to a plan to discontinue offering EIPV Business Connect hosted products and services. Accordingly, balances and activity have been reported as discontinued operations. During the quarter ended April 30, 2008, the Company sold the assets of EIPV for approximately $90,000. Accounts receivable of approximately $27,000 remains outstanding related to this transaction.

On December 11, 2007, the Company executed a definitive Agreement and Plan of Merger to acquire Cortelco Systems Holding Corporation ("Cortelco") for up to $11,000,000 in stock and cash. The companies are discussing a possible restructuring of the merger agreement, but no agreement has been executed. There is no assurance that a new agreement will be reached or that the merger transaction will be closed.

On March 8, 2008, the Company and Cortelco entered into an outsourcing agreement whereby Cortelco will provide management for all U.S. operations for eOn. Included in the management services are sales, marketing, product management, engineering, technical support, quality assurance, accounting and information technology.

Cortelco recently directed cost reductions and revitalized revenue growth at Cortelco Systems Puerto Rico Inc. (CPROF.ob). eOn anticipates that it will continue to utilize Cortelco's management expertise on an outsourcing basis irrespective of whether the proposed Cortelco merger closes.

Effective April 1, 2008, the Company closed its engineering facility in India. Also on April 1, 2008, Mitch Gilstrap, COO, and Vijay Sharma, CTO, left the Company.

On June 13, 2008, David Lee purchased the Company's 300,000 share investment in Spark for $300,000.

Critical Accounting Policies and Estimates

There were no material changes during the nine months ended April 30, 2008 to the critical accounting policies reported in our Annual Report on Form 10-KSB for the fiscal year ended July 31, 2007.

Results of Operations

For the Three Months Ended April 30, 2008 compared to the Three Months Ended April 30, 2007

Net Revenue

Net revenue was down by approximately 57% at $1,514,000 for the three months ended April 30, 2008 compared to $3,554,000 for the same period of the previous year. Sales of Millennium through our dealer channel declined but the majority of the decrease in Millennium revenues reflects lower sales to the U.S. Coast Guard. eQueue revenues declined substantially in both China and the U.S. this quarter.

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 60% to $763,000 for the three months ended April 30, 2008 from $1,887,000 for the same period of the previous year, reflecting declines in both eQueue and Millennium margins. Gross profit for eQueue and Millennium decreased for the three months ended April 30, 2008, reflecting lower system sales over the same period of the previous year. Maintenance contract revenues remained stable compared to the same period of the previous year. Gross margin % decreased to approximately 50% for the three months ended April 30, 2008 compared with gross margin of approximately 53% for the same period of the previous year, primarily the result of product mix. The margin on related party revenue is significantly less than the historical margins for both the Millennium and eQueue products.

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 increased approximately 6% to $1,150,000 for the three months ended April 30, 2008, from $1,086,000 for the same period of the previous year. The increase reflects higher compensation expense in China and higher domestic contract services expense partially offset by lower depreciation, rent expense, and international travel.

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 2% to $703,000 for the three months ended April 30, 2008 from $715,000 for the same period of the previous year. The Company closed its engineering facility in India effective April 1, 2008 and the decrease in development costs has been offset by approximately $222,000 in severance expenses.

Other Expense

Other expense is primarily comprised of bank service charges, franchise taxes, currency differences and gains or losses from disposal of fixed assets. Other expenses were $123,000 for the three months ended April 30, 2008 compared to ($2,000) for the same period of the previous year. The increase in other expense is primarily attributable to the closure of the India engineering facility and the loss on disposal of assets in India.

Interest Income

Interest income was $16,000 for the three months ended April 30, 2008 compared to $59,000 for the same period of the previous year. The decrease reflects a lower weighted average balance of marketable securities invested compared to the same period of the previous year.

For the Nine Months Ended April 30, 2008 compared to the Nine Months Ended April 30, 2007

Net Revenue

Net revenue decreased approximately 30% to $5,390,000 for the nine months April 30, 2008 compared to $7,749,000 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, partially offset by related party professional services revenues, which began during the same period of the previous year. Sales of Millennium systems were adversely impacted by slowdowns in key U.S. government and education market segments during the nine months ended April 30, 2008. The decrease in eQueue reflects lower domestic and China sales during the nine months ended April 30, 2008 compared to the same period of the previous year.

Cost of Revenue and Gross Profit

Cost of revenue is primarily comprised of purchases from our contract manufacturers and other suppliers and costs incurred for final assembly of our systems. Gross profit decreased approximately 34% to $2,971,000 for the nine months ended April 30, 2008 from $4,469,000 for the same period of the previous year, reflecting lower eQueue margins and lower Millennium margins. Gross profit for eQueue decreased over the same period last year reflecting lower product margins and lower professional service revenue, which historically have significantly contributed to our margins. Millennium gross profit decreased for the nine months ended April 30, 2008, reflecting lower system sales over the same period of the previous year. Gross margin % decreased to approximately 55% for the nine months ended April 30, 2008 compared with gross margin of approximately 58% for the same period of the previous year, primarily the result of product mix. Additionally, the margin on related party revenue is significantly less than the historical margins for both the Millennium and eQueue products.

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 increased approximately 1% to $3,297,000 for the nine months ended April 30, 2008, from $3,263,000 for the same period of the previous year. The increase reflects higher compensation expense resulting from headcount additions in China and rising compensation costs in China partially offset by lower depreciation and rent 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 4% to $2,140,000 for the nine months ended April 30, 2008 from $2,225,000 for the same period of the previous year. The decrease reflects a decline in personnel and related travel expenses. The Company closed its engineering facility in India effective April 1, 2008 and the decrease in development costs has been offset by approximately $222,000 in severance expenses.

Other Expense

Other expense is primarily comprised of bank service charges, franchise taxes, currency differences and gains or losses from disposal of fixed assets. Other expenses were $160,000 for the nine months ended April 30, 2008 compared to $28,000 for the same period of the previous year. The increase in other expense is primarily attributable to the closure of the India engineering facility and the loss on disposal of assets in India.

Interest Income

Interest income was $96,000 for the nine months ended April 30, 2008 compared to $219,000 for the same period of the previous year. The decrease reflects a lower weighted average balance of marketable securities invested compared to the same period of the previous year.

Liquidity and Capital Resources

As of April 30, 2008, we had cash and cash equivalents of $1,360,000 and working capital of $3,673,000. Our marketable securities have been invested in taxable auction rate securities (“ARS”) with frequent rate resets. Since February 2008, there have been failed auctions in the auction rate securities market. The Company liquidated $900,000 in successful auctions during the quarter ended April 30, 2008. At April 30, 2008 and on June 13, 2008 we continue to hold $1,000,000 (par value) of auction rate securities, which are variable-rate debt securities and have a long-term maturity with the interest being reset through Dutch auctions that are typically held every 7, 28, or 35 days. The securities were rated AAA and are collateralized by student loans guaranteed by the U.S Department of Education; they have historically traded at par and are callable at par at the option of the issuer. Interest is typically paid at the end of each auction period.

There is no assurance that future auctions on these auction rate securities will succeed and, as a result, our ability to liquidate our investment and fully recover the par value of our investment in the near term may be limited or not exist. At April 30, 2008, there was insufficient observable ARS market information available to determine the fair value of these securities. Management determined that the estimated market value of the Company’s ARS at April 30, 2008 was $925,000, which reflects an approximate temporary impairment of $75,000 to the par value of $1,000,000. We believe this temporary impairment is primarily attributable to the limited liquidity of these investments.

We have no reason to believe that any of the underlying issuers of our securities are presently at risk of default. Through June 13, 2008, we have continued to receive interest payments in accordance with their terms. We believe we will be able to liquidate our investments without significant loss primarily due to the government guarantee of the underlying securities. However, due to the uncertainty in the ARS market, we believe the recovery period for these investments may be longer than twelve months and as a result, we have classified these investments as long-term as of April 30, 2008.

If auctions continue to fail, the Company expects to be able to borrow approximately 50% against these securities if needed to meet operating requirements. For the immediate future, the Company will maintain a more conservative investment portfolio given the uncertainties in the credit markets and expects investment income to reflect the conservative nature of these investments.

Our operating activities resulted in a net cash outflow of $2,435,000 for the nine months ended April 30, 2008 compared to a net cash outflow of $1,297,000 for the same period of the previous year. The net operating cash outflow for the current period primarily reflects net loss (adjusted for non-cash items), higher inventory and other current assets, partially offset by lower accounts receivable. The net operating cash outflow for the prior year period primarily reflects net loss (adjusted for non-cash items) and higher accounts receivable and inventories and lower accrued expenses partially offset by higher trade accounts receivable – related party.

Our investing activities resulted in a net cash inflow of $1,426,000 for the nine months ended April 30, 2008 compared to a net cash inflow of $911,000 for the same period of the previous year. Cash provided by investing activities for the nine months ended April 30, 2008 was a result of proceeds from the disposal of marketable securities and assets of discontinued operations partially offset by the $900,000 investment in Symbio Group and purchases of property and equipment. Cash provided by investing activities for the same period of the previous year was a result of net marketable securities disposals and proceeds from the disposal of discontinued operations, partially offset by purchases of property and equipment.

Our financing activities resulted in a cash inflow of $11,000 for the nine months ended April 30, 2008 compared to a cash inflow of $30,000 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 $5,283,000 in capital expenditures.

The Company has incurred substantial net operating losses since inception and has had negative cash flows from operating activities through July 31, 2007; resulting in an accumulated deficit of $45,065,000. During the nine months ended April 30, 2008, cash and cash equivalents and short-term marketable securities decreased to $1,360,000 from $5,656,000, primarily as a result of the reclassification of marketable securities to long term and funding the investment in the Symbio Group and funding operating losses during the quarter.

The Company had a loss from continuing operations of $2,530,000 for the nine months ended April 30, 2008 versus a loss from continuing operations of $828,000 for the same period in the prior year. As of April 30, 2008, the Company had $1,360,000 in cash and cash equivalents to fund operations, of which $285,000 was held in international bank accounts.

The Company is dependent on available cash, 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 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 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 September 1, 2007, the Company entered into a Shared Space Agreement (“Agreement”) with Sylantro Systems Corporation for office space in Shanghai, China. Under the terms of the Agreement, the Company shares a portion of the premises consisting of 687 square meters or 75% of the premises through November 30, 2009. The monthly rent for this space is approximately $11,000 and replaces the space that was previously occupied by our employees in Shanghai, China. Effective May 1, 2008, Symbio will be responsible for the majority of the rent and facility costs.

(b) Commitments

At April 30, 2008, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $265,000.

(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 had the right to give notice of its intent to exercise this option at any time prior to March 31, 2008. After evaluating the current status of Spark and the option, the eOn Board of Directors decided to not exercise the option.

The Agreement further provides that in the event the Company does not exercise this option, 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. David Lee purchased the shares and paid the Company $300,000 on June 13, 2008.

(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.

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.

We may continue to incur losses, which may affect our viability.

We have incurred substantial losses in prior years and continue to do so. If we are unable to increase our revenues, we may be unable to pay our expenses and continue operations as an independent company.

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 that improve communications, increase employee productivity and lower costs. While the industry remains fragmented, it is rapidly moving toward consolidation. Companies seeking to increase market share and their ability to compete have recently acquired a number of our current competitors. 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, Aspect Communications, and Rockwell;
- Data communication equipment suppliers, such as Cisco Systems and 3COM;
- VoIP telephone manufacturers, such as Polycom, Linksys, Grand Stream and Aastra;
- Hosted solution providers including Packet 8, Five9, Echopass and Oracle;
- Email management and web center software suppliers, such as eGain Communications, Kana Communications, and RightNow Technologies; 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 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.

A significant portion of our revenue is 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 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 April 30, 2008, our executive officers, directors and principal stockholders and their affiliates beneficially owned 918,551 common shares, or 31.75% 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.

In December 2007, the Company contracted with Cortelco to provide accounting and controllership functions on an outsourced basis. There has been no change in the Company's Chief Financial Officer and other control procedures remain as before.

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.

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: June 16, 2008

/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: June 16, 2008

/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 16, 2008

/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 16, 2008

/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 16, 2008

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