UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JANUARY 31, 2009.**

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)

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 large accelerated filer, an accelerated filler, a non-accelerated filer, or a small reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐	Small reporting company ☒

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

2,735,508 shares of common stock, $0.005 par value, were outstanding as of February 28, 2009.

EON COMMUNICATIONS CORPORATION
FORM 10-Q
QUARTER ENDED JANUARY 31, 2009

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PART I—FINANCIAL INFORMATION

Item 1.—Financial Statements.

EON COMMUNICATIONS CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except share amounts)

	January 31, 2009 (Unaudited)	July 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,383	$ 1,545
Marketable securities	1,000	1,000
Trade accounts receivable, net of allowance of $307 and $680, respectively	703	932
Trade accounts receivable—related party	7	84
Inventories	2,143	2,501
Prepaid and other current assets	109	177
Total current assets	5,345	6,239
Property and equipment, net	126	176
Intangibles, net	209	251
Investments	1,086	900
Non-current assets	131	88
Total assets	$ 6,897	$ 7,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Trade accounts payable	$ 100	$ 214
Trade accounts payable—related party	122	126
Notes payable	138	138
Accrued expenses and other	954	1,145
Total liabilities, all current	1,314	1,623
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, 2,870,888 and 2,869,608 shares issued, respectively)	14	14
Additional paid-in capital	55,994	55,931
Treasury stock, at cost (135,380 shares)	(1,502)	(1,502)
Accumulated deficit	(49,027)	(48,517)
Accumulated other comprehensive income	104	105
Total stockholders' equity	5,583	6,031
Total liabilities and stockholders' equity	$ 6,897	$ 7,654

See accompanying notes to the condensed consolidated financial statements.

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

	Three Months Ended January 31,		Six Months Ended January 31,	
	2009	2008	2009	2008
REVENUE				
Third party revenue	$1,307	$1,392	$3,091	$ 3,660
Related party revenue	—	88	—	216
Net revenue	1,307	1,480	3,091	3,876
COST OF REVENUE				
Third party cost of revenue	703	576	1,516	1,468
Related party cost of revenue	—	80	—	200
Cost of revenue	703	656	1,516	1,668
Gross profit	604	824	1,575	2,208
OPERATING EXPENSE				
Selling, general and administrative	688	1,107	1,455	2,147
Research and development	277	680	582	1,437
Other expense	17	11	61	37
Total operating expense	982	1,798	2,098	3,621
Loss from continuing operations	(378)	(974)	(523)	(1,413)
Interest income	2	34	13	80
Loss from continuing operations before income taxes	(376)	(940)	(510)	(1,333)
Income tax expense	—	—	—	—
Loss from continuing operations after income taxes	(376)	(940)	(510)	(1,333)
DISCONTINUED OPERATIONS				
Loss from discontinued operations	—	(59)	—	(577)
Loss from discontinued operations	—	(59)	—	(577)
Net loss	$ (376)	$ (999)	$ (510)	$(1,910)
COMPREHENSIVE INCOME (LOSS)				
Net loss	$ (376)	$ (999)	$ (510)	$(1,910)
Foreign currency translation adjustment	—	27	(1)	65
Comprehensive loss	$ (376)	$ (972)	$ (511)	$(1,845)
Weighted average shares outstanding				
Basic and diluted	2,736	2,718	2,735	2,717
Basic and diluted loss per share:				
From continuing operations	$ (0.14)	$ (0.35)	$ (0.19)	$ (0.49)
From discontinued operations, net of tax	—	(0.02)	—	(0.21)
Basic and diluted loss per share	$ (0.14)	$ (0.37)	$ (0.19)	$ (0.70)

See accompanying notes to the condensed consolidated financial statements.

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

	Six Months Ended January 31, 2009	Six Months Ended January 31, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (510)	$(1,910)
Change in operating assets and liabilities of discontinued operations	—	205
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation expense	12	130
Depreciation and amortization	83	116
Provision for allowance for doubtful accounts	57	(10)
Loss on disposal of property and equipment	22	8
Changes in net assets and liabilities:		
Trade accounts receivable	172	842
Inventories	358	(485)
Prepaid and other assets	25	(192)
Trade accounts payable	(114)	(177)
Trade accounts receivable/payable—related party	73	(209)
Accrued expenses and other	(191)	(199)
Net cash used in operating activities	(13)	(1,881)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(13)	(124)
Purchase of investments	(194)	(900)
Sale of investments	58	—
Purchases of marketable securities	(1,000)	—
Disposal of marketable securities	1,000	1,500
Net cash (used in) provided by investing activities	(149)	476
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from note payable	58	—
Repayment of note payable	(58)	—
Proceeds from employee stock purchase plan and stock option exercises	1	10
Net cash provided by financing activities	1	10
Effect of exchange rate changes on cash	(1)	65
Net decrease in cash and cash equivalents	(162)	(1,330)
Cash and cash equivalents, beginning of period	1,545	2,256
Cash and cash equivalents, end of period	$ 1,383	$ 926

See accompanying notes to the condensed consolidated financial statements.

EON COMMUNICATIONS CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
For the Three and Six Months Ended January 31, 2009 and 2008

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, 2009 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.

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 have been adjusted for presentation to reflect the reverse split.

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, eOn Communications (Beijing) Corporation Limited ("eOn China"), and eOn IP Voice, Inc. ("EIPV"). 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, 2008 and 2007 and for each of the two years in the period ended July 31, 2008, 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.

Fair Value Accounting

In September 2006, the FASB issued FASB Statement No. 157, "Fair Value Measurements" ("FAS 157"). FAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. The provisions of FAS 157 were adopted by the Company on August 1, 2008. In February 2008, the FASB staff issued FSP No. 157-2 "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-2 delayed the effective date of FAS 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The provisions of FSP FAS 157-2 are effective for the Company's fiscal year beginning August 1, 2009, and are not expected to have a significant impact on the Company. SFAS No. 157 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are described below:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability;

Level 3 Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company's cash equivalent instruments are classified within Level 1 of the fair value hierarchy because they are valued using quoted market prices. The cash instruments that are valued based on quoted market prices in active markets are primarily money market securities and U.S. Treasury securities.

The Company's marketable securities are valued using quoted market prices in active markets and as such are classified within Level 1 of the fair value hierarchy. The fair value of the marketable securities is calculated as the quoted market price of the marketable security multiplied by the quantity of securities held by the Company.

In February 2007, the FASB issued SFAS No. 159, *Fair Value Option for Financial Assets and Financial Liabilities* ("SFAS No. 159"). SFAS No. 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 No. 159 was effective for eOn on August 1, 2008. The Company does not expect SFAS No. 159 to have a material impact on its consolidated financial statements.

Recent Accounting Standards

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.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities—An Amendment of FASB Statement No. 133* ("SFAS No. 161") effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. SFAS No. 161 requires an entity to provide enhanced disclosures about derivative instruments and hedging activities. The Company does not expect SFAS No. 161 to have a material impact on its consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142. The intent of this FSP is to improve the consistency between the useful life of an intangible asset determined under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is evaluating the potential impact of this FASB Staff Position on its consolidated financial statements.

In June 2008, the FASB issued EITF No. 07-5, *Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity's Own Stock* effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. EITF No. 07-5 provides guidance for determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. The adoption of EITF No. 07-5 is not expected to have a material effect on the Company's 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. 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. During the six months ended January 31, 2009, options to purchase 2,500 shares of common stock were 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 the six months ended January 31, 2009, employees purchased 1,280 shares under the plan.

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.

The assumptions used to value option grants for the six months ended January 31, 2009 are as follows:

Expected volatility	107%
Expected term (in years)	6.25
Dividend yield	—
Risk-free interest rate	2.91%

Total stock-based compensation recognized for the six months ended January 31, 2009 is as follows (in rounded thousands):

Income Statement Classifications	Option Grants	ESPP	Total
Selling, general and administrative	$ 11	$ 1	$ 12
Research and development	—	—	—
Total	$ 11	$ 1	$ 12

As of January 31, 2009, the Company has total unrecognized compensation cost of $11,000 related to unvested stock options under the Plans. The Company expects these costs to be recognized on a declining basis ending during fiscal year 2013.

General Stock Option Information

Activity in the Company's stock option plans since July 31, 2008 is as follows:

	Shares Available for Grant	Options Outstanding	Weighted Average Exercise Price
Options at July 31, 2008	191,864	210,096	$ 17.30
Granted	(2,500)	2,500	0.54
Exercised	—	—	—
Cancelled	19,123	(19,123)	26.04
Options at January 31, 2009	208,487	193,473	$ 16.22

Information regarding the stock options outstanding under the Company's stock option plans at January 31, 2009 is summarized as follows:

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Range of Exercise Prices	Outstanding at January 31, 2009	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable at January 31, 2009	Weighted Average Exercise Price
$ 0.00 – $ 25.00	167,843	5.2 years	$ 10.74	163,208	$ 10.95
$25.01 – $ 50.00	14,110	.2 years	47.20	14,110	47.20
$50.01 – $ 75.00	10,920	.6 years	54.64	10,920	54.64
$75.01 – $125.00	600	1.1 years	121.25	600	121.25
	193,473	4.6 years	$ 16.22	188,838	$ 16.54

The aggregate intrinsic value of both options outstanding and options exercisable as of January 31, 2009 was $0. The aggregate intrinsic value of the 2,100 options which vested during the six months ended January 31, 2009 was $0. During the six months ended January 31, 2009, no options to purchase common stock were exercised.

3. 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*."

4. eOn IP Voice, Inc. ("EIPV") 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*".

During the quarter ended April 30, 2008, the Company sold the assets of EIPV for approximately $90,000. EIPV activity for the three and six months ended January 31, 2008 is as follows:

	Three Months Ended January 31, 2008	Six Months Ended January 31, 2008
Revenue	$ 16	$ 43
Cost of revenue	63	120
Impaired user licenses	—	28
Inventory obsolescence	—	39
Gross profit	(47)	(144)
General and administrative expense	12	321
Impaired property and equipment	—	57
Allowance for bad debts	—	55
Net loss from discontinued operations	$ (59)	$ (577)

5. Related Parties

Cortelco, Inc. and Cortelco Systems Holding Corporation

Cortelco, Inc. ("CI") is a subsidiary of Cortelco Systems Holding Corporation ("Cortelco") and a supplier of Millennium and eQueue peripheral hardware. In addition, on March 8, 2008, the Company and Cortelco entered into an outsourcing agreement whereby Cortelco provides 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. Charges incurred under this agreement during the three and six months ended January 31, 2009 were approximately $192,000 and $398,000, respectively, and approximately $98,000 is included in the accounts payable balance at January 31, 2009. David Lee, the Company's Chief Executive Officer, is the Chairman and a controlling shareholder of Cortelco. Accounts payable are paid on thirty to sixty day terms. The following represent related party transactions for the six months ended January 31, 2009 and 2008 (in thousands):

	2009	2008
Payable to CI		
Balance at beginning of period	$ 126	$ 300
Purchases from CI	447	566
Payments to CI	(451)	(773)
Balance at end of period	$ 122	$ 93

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. The following represent related party transactions for the six months ended January 31, 2009 and 2008 (in thousands):

	2009	2008
Receivable from CSPR		
Balance at beginning of period	$—	$ 9
Purchases	4	4
Payments	(2)	(13)
Balance at end of period	$ 2	$—

Spark Technologies, Inc.

Aelix Systems, Inc. ("Aelix"), the Company's former Banglore, India based subsidiary, and eOn China performed 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 was 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. On April 1, 2008, an outsourcing services transfer agreement was entered into and eOn transferred all of its rights and obligations under the professional services agreement with Spark to Symbio Investment Corporation. eOn holds an equity interest in Symbio.

eOn and Spark share office space in San Jose, California. Spark bills eOn approximately $7,000 per month for rent and facility costs. The following represent related party transactions for the six months ended January 31, 2009 and 2008 (in thousands):

	2009	2008
Receivable from Spark		
Balance at beginning of period	$—	$ 108
Related party billings for engineering development and costs	—	239
Costs offset against operating expenses	3	6
Cash payments received from Spark	—	(200)
Payables offset against accounts receivable	(3)	(70)
Balance at end of period	$—	$ 83

	2009	2008
Payable to Spark		
Balance at beginning of period	$—	$ 37
Operating costs billed to eOn	38	34
Payments to Spark	(35)	—
Balance offset against receivable from Spark	(3)	(70)
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. As a result of this termination, the Company reduced the balance due from Spark by $26,000. This credit represented unamortized leasehold costs as of January 2008 and a facility deposit, offset by lost Aelix profits and rent through January 2008.

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 and has been elected Chairman. eOn has been granted an additional 25,000 shares of Symbio as compensation for Mr. Lee’s services. These shares have been valued at $50,000, and have been recorded as an increase in investments and a capital contribution by David Lee.

Until November 1, 2008, Symbio shared office space and personnel with eOn in Shanghai, China and was billed for expenses attributable to its business. The following represent related party transactions for the six months ended January 31, 2009 and 2008 (in thousands):

	2009	2008
Receivable from Symbio		
Balance at beginning of period	$ 84	$—
Operating costs billed	155	—
Payments	(234)	—
Balance at end of period	$ 5	$—

Joint Venture

On October 24, 2008, eOn China invested RMB 400,000 (approximately $58,000) into a joint venture in TaiCang China. eOn China had borrowed RMB 300,000 from an unrelated third party in TaiCang and RMB 100,000 from an employee in October to make this investment. These borrowings were unsecured and interest free. In November 2008, David Lee purchased this investment from eOn China for $58,000 and took personal ownership of the investment. The proceeds from David Lee were used to repay these borrowings in November 2008.

6. Inventories

Inventories consist of the following (in thousands):

	January 31, 2009	July 31, 2008
Raw materials and purchased components	$ 922	$ 961
Finished goods	2,533	2,759
Total	3,455	3,720
Inventory obsolescence reserve	(1,312)	(1,219)
Inventory	$ 2,143	$ 2,501

7. Notes Payable

On June 20, 2008, eOn China issued a note to Hangzhou Nature Opto Company, an unrelated third party, in exchange for RMB 945,000, or approximately $138,000 U.S. dollars. The note payable is non-interest bearing and was due on January 19, 2009. The parties agreed that the note will be repaid later in the year 2009. See Note 12.

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 2%-3% 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 six months ended January 31, 2009 and 2008 (in thousands):

	2009	2008
Beginning balance	$ 82	$133
Warranty cost incurred	(11)	(35)
Accrued warranty cost	35	40
Ending balance	$106	$138

9. Changes in Stockholders' Equity

The following represent the changes in stockholders' equity for the six months ended January 31, 2009 (in thousands, excluding share data):

	Common Stock			Treasury Stock				
	Shares	Amount	Additional Paid-In Capital	Shares	Amount	Accumulated Deficit	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance at July 31, 2008	2,869,608	$ 14	$ 55,931	(135,380)	$ (1,502)	$ (48,517)	$ 105	$ 6,031
Issuance of common stock under employee stock purchase plan	1,280	—	1	—	—	—	—	1
Stock based compensation expense, stock options and ESPP			12					12
Capital contribution by David Lee			50					50
Comprehensive income (loss):								
Foreign currency translation adjustments							(1)	(1)
Net loss	—	—	—	—	—	(510)	—	(510)
Comprehensive loss	—	—	—	—	—		—	(511)
Balance at January 31, 2009	2,870,888	$ 14	$ 55,994	(135,380)	$ (1,502)	$ (49,027)	$ 104	$ 5,583

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 shared a portion of the premises consisting of 687 square meters or 75% of the premises thru November 30, 2009. The monthly rent for this space was approximately $11,000. Effective May 1, 2008, Symbio became responsible for the majority of the rent and facility costs. Sylantro notified eOn of its intent to terminate the Agreement on September 15, 2008 and terminated the lease as of October 28, 2008.

(b) Commitments

At January 31, 2009, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $162,000.

(c) 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 12, 2008, the Company executed a restructured Agreement and Plan of Merger to acquire Cortelco Systems Holding Corporation ("Cortelco") for up to $11,000,000 in cash, contingent primarily on the future earnings of Cortelco. The independent members of the Board of Directors of both eOn and Cortelco have approved the proposed merger. A majority of the Cortelco stockholders (excluding the shares held by David Lee and Steve Bowling) have approved the merger pursuant to an action by written consent that became effective January 26, 2009. Completion of the merger is subject to the fulfillment of the remaining conditions to closing.

The Company anticipates, but cannot guarantee, that the transaction will close sometime in the Company's third fiscal quarter of fiscal year 2009. The proposed merger may be terminated if the conditions to closing are not fulfilled, in the event of a breach of the agreement by either party, or upon mutual agreement of the parties.

12. Symbio-ESPark Business Processing Outsourcing Joint Venture

On August 12, 2008, Hangzhou East Software Park ("Hangzhou"), Symbio and eOn formed Symbio-ESPark Business Processing Outsourcing Joint Venture (the "Joint Venture") located in Hangzhou, China.

On September 9, 2008, eOn invested RMB 900,000 (approximately $136,000) into the Joint Venture for a 9% ownership interest in the Joint Venture. On June 20, 2008, the Company received approximately $138,000 from an entity related to Hangzhou and executed a promissory note due January 19, 2009. See Note 7.

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.

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

On December 12, 2008, the Company executed a restructured Agreement and Plan of Merger to acquire Cortelco Systems Holding Corporation ("Cortelco") for up to $11,000,000 in cash, contingent primarily on the future earnings of Cortelco. The independent members of the Board of Directors of both eOn and Cortelco have approved the proposed merger. A majority of the Cortelco stockholders (excluding the shares held by David Lee and Steve Bowling) have approved the merger pursuant to an action by written consent that became effective January 26, 2009. Completion of the merger is subject to the fulfillment of the remaining conditions to closing.

The Company anticipates, but cannot guarantee, that the transaction will close sometime in the Company's third fiscal quarter of fiscal year 2009. The proposed merger may be terminated if the conditions to closing are not fulfilled, in the event of a breach of the agreement by either party, or upon mutual agreement of the parties.

Critical Accounting Policies and Estimates

There were no material changes during the six months ended January 31, 2009 to the critical accounting policies reported in our Annual Report on Form 10-KSB for the fiscal year ended July 31, 2008.

Results of Operations

For the Three Months Ended January 31, 2009 compared to the Three Months Ended January 31, 2008

Net Revenue

Net revenue was down by approximately 12% at $1,307,000 for the three months ended January 31, 2009 compared to $1,480,000 for the same period of the previous year. The majority of the decrease was attributable to eQueue revenues declining substantially during the quarter due to decreased customer demand. In addition, sales of Millennium systems were more adversely impacted by seasonal slowdowns traditionally experienced in key US government and education markets segments during the quarter ended January 31, 2009.

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 27% to $604,000 for the three months ended January 31, 2009 from $824,000 for the same period of the previous year, reflecting declines in both eQueue and Millennium margins. Gross profit for eQueue and Millennium sales decreased for the three months ended January 31, 2009, reflecting lower system sales over the same period of the previous year. Maintenance contract revenues declined compared to the same period of the previous year. Gross margin % decreased to approximately 46% for the three months ended January 31, 2009 compared with gross margin of approximately 56% 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, marketing costs, and facilities and other overhead expenses incurred to support our business. Selling, general and administrative expenses decreased approximately 38% to $688,000 for the three months ended January 31, 2009, from $1,107,000 for the same period of the previous year. The decrease reflects lower compensation and related expenses, lower rent expense and lower depreciation, partially offset by higher bad debt expense and higher domestic contract services 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 59% to $277,000 for the three months ended January 31, 2009 from $680,000 for the same period of the previous year. The Company closed its engineering facility in India effective April 1, 2008 and the decrease reflects lower compensation and related expenses, lower rent expense, and lower depreciation.

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 $17,000 for the three months ended January 31, 2009 compared to $11,000 for the same period of the previous year. The increase in other expense is primarily attributable to the loss on disposal of leasehold improvements in China.

Interest Income

Interest income was $2,000 for the three months ended January 31, 2009 compared to $34,000 for the same period of the previous year. The decrease reflects a lower weighted average balance of funds invested and lower interest rate earned compared to the same period of the previous year.

For the Six Months Ended January 31, 2009 compared to the Six Months Ended January 31, 2008

Net Revenue

Net revenue decreased approximately 20% at $3,091,000 for the six months ended January 31, 2009 compared to $3,876,000 for the same period of the previous year. The decrease was attributable to declines in eQueue revenues and Millennium revenues over the same period of the previous year, partially offset by an increase in third party service revenue. Sales of Millennium systems were more adversely impacted by seasonal slowdowns traditionally experienced in key US government and education markets segments during the six months ended January 31, 2009. The decrease in eQueue revenues reflect lower domestic and international software sales during the six months ended January 31, 2009 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 29% to $1,575,000 for the six months ended January 31, 2009 from $2,208,000 for the same period of the previous year, reflecting declines in both eQueue and Millennium margins. Gross profit for eQueue and Millennium sales decreased for the six months ended January 31, 2009, reflecting lower system sales over the same period of the previous year. Maintenance contract revenues declined compared to the same period of the previous year. Gross margin % decreased to approximately 51% for the six months ended January 31, 2009 compared with gross margin of approximately 57% 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, marketing costs, and facilities and other overhead expenses incurred to support our business. Selling, general and administrative expenses decreased approximately 32% to $1,455,000 for the six months ended January 31, 2009, from $2,147,000 for the same period of the previous year. The decrease reflects lower compensation and related expenses, lower rent expense and lower depreciation, partially offset by higher bad debt expense and higher domestic contract services 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 59% to $582,000 for the six months ended January 31, 2009 from $1,437,000 for the same period of the previous year. The Company closed its engineering facility in India effective April 1, 2008 and the decrease reflects lower compensation and related expenses, lower rent expense, and lower depreciation.

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 $61,000 for the six months ended January 31, 2009 compared to $37,000 for the same period of the previous year. The increase in other expense is primarily attributable to the loss on disposal of leasehold improvements in China.

Interest Income

Interest income was $13,000 for the six months ended January 31, 2009 compared to $80,000 for the same period of the previous year. The decrease reflects a lower weighted average balance of funds invested and lower interest rate earned compared to the same period of the previous year.

Liquidity and Capital Resources

As of January 31, 2009, we had cash and cash equivalents of $1,383,000 and $1,000,000 in short-term marketable securities, and working capital of $4,031,000. Our short-term marketable securities are invested in liquid treasury securities.

Our operating activities resulted in a net cash outflow of $13,000 for the six months ended January 31, 2009 compared to a net cash outflow of $1,881,000 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), lower accrued expenses and trade accounts payable, partially offset by lower inventories and trade accounts receivable. The net operating cash outflow for the prior year period primarily reflects net loss (adjusted for non-cash items) and higher inventories and lower related party accounts payable partially offset by lower trade accounts receivable.

Our investing activities resulted in a net cash outflow of $149,000 for the six months ended January 31, 2009 compared to a net cash inflow of $476,000 for the same period of the previous year. Cash used in investing activities for the six months ended January 31, 2009 was a result of an investment of approximately $136,000 in a joint venture in Hangzhou, China and purchases of property and equipment. Cash provided by investing activities for the same period of the previous year was a result of disposal of marketable securities partially offset by the $900,000 investment in Symbio Group and purchases of property and equipment.

Our financing activities resulted in a cash inflow of $1,000 for the six months ended January 31, 2009 compared to a cash inflow of $10,000 for the same period of the previous year. Cash provided by financing activities in the current period and in the prior period were due to purchases under the Employee Stock Purchase Plan.

Liquidity

Since inception, the Company has financed its operations through debt financing and proceeds generated from public offerings of its common stock. The proceeds from these transactions have been used primarily to fund research and development costs, and selling, general and administrative expenses. Additionally, since inception, the Company has invested approximately $5,282,000 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, 2008; resulting in an accumulated deficit of $48,517,000. During the six months ended January 31, 2009, cash and cash equivalents and short-term marketable securities decreased to $2,383,000 from $2,545,000, primarily as a result of funding operating losses during the period.

The Company had a loss from continuing operations of $510,000 for the six months ended January 31, 2009 versus a loss from continuing operations of $1,333,000 for the same period in the prior year. As of January 31, 2009, the Company had $2,383,000 in cash and cash equivalents and short-term marketable securities available to fund operations, of which $47,000 was held in international bank accounts.

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.

The Cortelco Merger Agreement will require $500,000 in cash payments at closing.

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.

Due to the current state of the credit markets, we are not able to predict with any certainty whether we could obtain debt or equity financing to provide additional sources of liquidity, should the need arise, at favorable rates.

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 shared a portion of the premises consisting of 687 square meters or 75% of the premises thru November 30, 2009. The monthly rent for this space was approximately $11,000. Effective May 1, 2008, Symbio became responsible for the majority of the rent and facility costs. Sylantro notified eOn of its intent to terminate the Agreement on September 15, 2008 and terminated the lease as of October 28, 2008.

(b) Commitments

At January 31, 2009, the Company had outstanding commitments for inventory purchases under open purchase orders of approximately $162,000.

(c) 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.

Item 3.—Quantitative and Qualitative Disclosures About Market Risk.

The Company is subject to market rate risk from exposure to changes in interest rates based on its financing, investing and cash management activities, but the Company does not believe such exposure is material.

Item 4.—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, 2009.

PART II—OTHER INFORMATION

Item 1.—Legal Proceedings.

None.

Item 1A.—Risk Factors.

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.

Downturns in the U.S. and global economy adversely affect operating results.

Weakness in the U.S. and global economy has had a negative effect on our operating results. In an economic slowdown, we may also experience the negative effects of increased competitive pricing pressure and customer turnover. Worsening economic conditions or a prolonged or recurring recession could adversely affect our operating results. Further, we cannot assure you that an improvement in economic conditions will result in an immediate, if at all positive, improvement in our operating results or cash flows.

Fluctuations in our quarterly operating results could cause our stock price to decline.

Future operating results are likely to fluctuate significantly from quarter to quarter. Factors that could affect our quarterly operating results include:

- Delays or difficulties in introducing new products;
- Increasing expenses without commensurate revenue increases;
- Variations in the mix of products sold;
- Variations in the timing or size of orders from our customers;
- Delayed deliveries from suppliers and
- Price decreases and other actions by our competitors.

Our quarterly operating results are also likely to fluctuate due to seasonal factors. Some of our vertical markets, such as the U.S. government, educational and retail buyers, follow seasonal buying patterns and do not make substantial purchases during the quarters ending January 31. Thus, revenues in the quarters ending January 31 are often lower than in the previous quarters. Because of these and other factors, our operating results may not meet expectations in some future quarters, which could cause our stock price to decline.

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

The competitive arena for our products is changing very rapidly and we face intense competition in our markets. Well-established companies and many emerging companies continue to develop products that improve communications, increase employee productivity and lower costs. While the industry remains fragmented, it is rapidly moving toward consolidation. A number of our current competitors have been recently acquired by companies seeking to increase market share and their ability to compete. Additionally, robust open-source products have recently emerged in the market further lowering barriers to market entry and increasing competition.

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

Our current and potential competitors can be grouped into the following categories:

- Contact center vendors, such as Avaya, Nortel Networks and Aspect Software;
- Data communication equipment suppliers, such as Cisco Systems and Huawei;
- 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 Software, and Live Person;
- Voice communications equipment suppliers, such as Nortel Networks, Avaya, Mitel, NEC, Toshiba, and Siemens.
- 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 maintain our indirect sales channels our ability to generate revenue would be harmed.

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

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

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

There are risks associated with eOn's strategy of expanding into international markets, particularly in China.

Because some of eOn's growth initiatives include expansion into foreign markets, it is 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.

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

eOn may not be able to continue to invest in China or other international markets due to the above factors. Foreign markets for our products may continue to develop more slowly than anticipated, particularly with the current economic downturn worldwide.

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 Ayrshire Electronics (formerly ACT Electronics), Innovative Circuits, and Clover Electronics. We may not be able to deliver our products on a timely basis if any of these manufacturers fail to manufacture our products and deliver them to us on time. In addition, it could be difficult to engage other manufacturers to build our products. Our business, results of operations and financial condition could be harmed by any delivery delays.

We may be unable to hire and retain engineering and sales and marketing personnel necessary to execute our business strategy.

Competition for highly qualified personnel is intense due to the limited number of people available with the necessary technical skills, and we may not be able to attract, assimilate or retain such personnel. If we cannot attract, hire and retain sufficient qualified personnel, we may not be able to successfully develop, market and sell new products.

Our business could be harmed if we lose principal members of our management team.

We are highly dependent on the continued service of our management team. The loss of any key member of our management team may substantially disrupt our business and could harm our business, results of operations and financial condition. In addition, replacing management personnel could be costly and time consuming.

We are effectively controlled by our principal stockholders and management, which may limit your ability to influence stockholder matters.

As of January 31, 2009, our executive officers, directors and principal stockholders and their affiliates beneficially owned 722,331 shares, or 29.6% 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 2.—Unregistered Sales of Securities and Use of Proceeds.

None.

Item 3.—Defaults Upon Senior Securities.

None.

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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 13, 2009

/s/ Stephen R. Bowling

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

Exhibit 31.1

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

I, David S. Lee, certify that:

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

2. Based on my knowledge, this 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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;

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent 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 13, 2009

/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-Q 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) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) 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

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent 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 13, 2009

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

Exhibit 32.1

CERTIFICATIONS OF PERIODIC REPORT
PURSUANT TO SECTION 906 OF SARBANES-OXLEY ACT OF 2002

In connection with this quarterly report on Form 10-Q of eOn Communications Corporation ("Registrant") I, David S. Lee, Chief Executive Officer of Registrant , certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Dated: March 13, 2009

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

In connection with this quarterly report on Form 10-Q of eOn Communications Corporation ("Registrant") I, Stephen R. Bowling, Chief Financial Officer of Registrant , certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in this report fairly presents, in all material respects, the financial condition and results of operations of Registrant.

Dated: March 13, 2009

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