eOn communications™

November 6, 2009

To Our Stockholders:

The Board of Directors joins me in extending to you a cordial invitation to attend the 2009 Annual Meeting of Stockholders of eOn Communications Corporation. The Annual Meeting will be held at our office located at 185 Martinvale Lane, San Jose, CA 95119 at 2:00 PM local time on December 8, 2009.

We hope many eOn Communications Corporation stockholders will find it convenient to be present at the meeting, and we look forward to greeting those personally able to attend. It is important that your shares be represented and voted whether or not you plan to be present. THEREFORE, REGARDLESS OF THE NUMBER OF SHARES YOU OWN, PLEASE COMPLETE, SIGN, DATE, AND PROMPTLY RETURN THE ENCLOSED PROXY IN THE POSTAGE-PAID ENVELOPE PROVIDED. No postage is necessary if the envelope is mailed in the United States. The prompt return of your proxy will save the expense involved in further communications. Any stockholder attending the Annual Meeting may vote in person even if a proxy has been returned.

We hope that you will be able to attend the Annual Meeting, and we look forward to seeing you.

Sincerely,

David S. Lee

David S. Lee
Chairman of the Board

185 Martinvale Lane ● San Jose, CA 95119
408-694-9500 ● 408-224-4484 Fax www.eoncommunications.com

**EON COMMUNICATIONS CORPORATION**
**185 MARTINVALE LANE**
**SAN JOSE, CALIFORNIA 95119**

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## NOTICE OF 2009 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON DECEMBER 8, 2009

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TO OUR STOCKHOLDERS:

Notice is hereby given that the 2009 Annual Meeting of Stockholders of eOn Communications Corporation (the "Corporation") will be held at 185 Martinvale Lane, San Jose, CA 95119, at 2:00 PM on December 8, 2009, for the following purposes:

(1) To elect two Class I directors to serve on the Corporation's Board of Directors for a term of three years or until his/her successor is elected and qualified;

(2) To ratify the appointment of GHP Horwath, P.C. as our independent registered public accounting firm; and

(3) To transact any other business which may be properly brought before the Annual Meeting, or any adjournment or postponement thereof.

The above items of business are more fully described in the Proxy Statement accompanying this notice. Please read the Proxy Statement carefully.

Only stockholders of record at the close of business on November 6, 2009 are entitled to receive notice of, and to vote at, the Annual Meeting or at any adjournments or postponements of the meeting. A list of the stockholders entitled to vote at the Annual Meeting will be available for inspection by any stockholder during usual business hours ten days prior to the meeting date at the principal offices of the Corporation located at 185 Martinvale Lane, San Jose, CA 95119.

By Order of the Board of Directors,
eOn Communications Corporation

Gloria Lee
Corporate Secretary
San Jose, California
November 6, 2009

Your vote is important. Whether or not you expect to attend the Annual Meeting, please complete, sign, date, and return the enclosed proxy card in the enclosed postage-prepaid envelope in order to ensure your representation at the Annual Meeting. You may revoke your proxy at any time prior to the Annual Meeting. If you decide to attend the Annual Meeting and wish to change your proxy vote, you may do so automatically by voting in person at the Annual Meeting.

**EON COMMUNICATIONS CORPORATION**
**185 MARTINVALE LANE**
**SAN JOSE, CALIFORNIA 95119**

# PROXY STATEMENT FOR 2009 ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON DECEMBER 8, 2009

This Proxy Statement is furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Corporation for use at the 2009 Annual Meeting of Stockholders to be held on December 8, 2009 for the purposes set forth in the foregoing Notice. This statement and the form of proxy are being first sent to security holders on or about November 16, 2009.

The accompanying form of proxy has been prepared at the direction of the Board of Directors and is sent to you at its request. The proxies named therein have been designated by the Board of Directors.

Stockholders who execute proxies retain the right to revoke them at any time before they are voted by attending the Annual Meeting and voting in person or by notifying the Secretary of the Corporation at 185 Martinvale Lane, San Jose, CA 95119, in writing of such revocation prior to the Annual Meeting. A proxy, when properly executed, duly returned and not so revoked, will be voted and, if it contains any specification, will be voted in accordance therewith, provided the proxy is not mutilated or otherwise received in such form or at such time as to render it unvotable. If no choice is specified, the proxy will be voted in accordance with the recommendations of the Board of Directors as stated on the proxy form and in this Proxy Statement.

The recommendations of the Board of Directors with respect to voting on each scheduled item of business at the Annual Meeting are set forth in this Proxy Statement. In summary, the Board recommends that stockholders vote:

- **For the election of the two nominated Class I directors to serve on the Corporation's Board of Directors for a term of three years or until his/her successor is elected and qualified;**
- **For the ratification of appointment of GHP Horwath, P.C. as our independent registered public accounting firm; and**
- **Any other item of business that properly comes before the Annual Meeting, the proxy holders will vote the shares of Common Stock represented by valid proxies as recommended by the Board of Directors or, if no recommendation is given, as they may determine in their own discretion.**

The proxy solicitation will be conducted by mail, except that in a limited number of instances proxies may be solicited by officers, directors and regular employees of the Corporation personally, by telephone or by facsimile. The Corporation does not presently anticipate payment of any compensation or fees of any nature to anyone for the solicitation of these proxies, except that the Corporation may pay persons holding shares in their name, or of their nominees, for the expense of sending proxies and proxy material to principals. The entire cost of solicitation will be borne by the Corporation.

## OUTSTANDING SHARES AND VOTING RIGHTS

Only holders of the 2,735,634 outstanding shares of Common Stock at the close of business on the record date, November 6, 2009, are entitled to receive notice of the Annual Meeting and to vote the shares of Common Stock that they held on that date at the Annual Meeting. Each outstanding share of Common Stock entitles its holder to cast one vote on each matter to be voted on at the Annual Meeting.

The presence in person or representation by proxy of a majority of the outstanding shares of Common Stock as of the record date at the Annual Meeting will constitute a quorum, thereby permitting the stockholders to conduct their business at the Annual Meeting.

The election of directors will be determined by a plurality of the votes of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. A properly executed proxy marked “WITHHOLD AUTHORITY” with respect to the election of one or more directors will not be voted with respect to the director or directors indicated, although it will be counted for the purpose of determining whether there is a quorum.

Each other item of business that properly comes before the Annual Meeting will be determined by the affirmative vote of the majority of the shares of Common Stock present in person or represented by proxy at the Annual Meeting and entitled to vote thereon. A properly executed proxy marked “ABSTAIN” with respect to any such matter will not be voted on the matter. Under Delaware law, abstentions are counted for the purpose of determining whether there is a quorum and, being shares entitled to vote, are counted in the determination of voting results.

In general, if a stockholder holds shares of Common Stock in “street name” through a broker or other nominee, and if the broker or other nominee is not instructed or otherwise empowered to vote the stockholder’s shares at a meeting with respect to a particular matter, then the stockholder’s shares will constitute “broker non-votes” as to such matter. Under Delaware law, broker non-votes are counted for the purpose of determining whether there is a quorum; however, because they reflect the withholding of voting power on a specified matter, they are not shares entitled to vote and thus are not counted in the determination of voting results. As a practical matter, there will be no “broker non-votes” at the Annual Meeting, because the nature of the matters to be acted upon by the Corporation’s stockholders at the Annual Meeting is such that the brokers or other nominees will have discretion to vote the stockholder’s shares even in the absence of express instructions from the stockholders.

At the Annual Meeting, votes will be counted by a representative of Broadview Investor Communication Solutions, the Corporation’s independent Inspector of Election. Such representative will process the votes cast by the stockholders, will make a report of inspection and count of the votes cast by the stockholders, and will certify as to the number of votes cast on each proposal.

## PROPOSAL NO. 1: ELECTION OF DIRECTORS

The Board of Directors of the Corporation currently consists of five directors divided into three classes designated Class I, Class II, and Class III. A single class of directors is elected each year at the Annual Meeting. Subject to transition provisions, each class of directors serves until the third Annual Meeting of stockholders after his/her election or until a successor has been elected and duly qualified. Two Class I directors will be elected at the Annual Meeting.

The persons named in the accompanying form of proxy will vote the shares represented by all valid proxies, which are received for the election of the nominees hereinafter named, unless the authority to do so is withheld on the proxy. The two nominees for the Class I directors are presently serving in such capacity.

Management has no reason to believe that the nominee will refuse to act or be unable to accept election; however, in such event and if any other unforeseen contingency should arise, it is the intention of the persons named in the accompanying form of proxy to vote for another nominee selected by the Board of Directors in accordance with their best judgment.

The following descriptions set forth certain information, as of October 26, 2009, about each director, including each person's business experience for the past five years. There is no family relationship between any of the directors or executive officers of the Corporation.

### NOMINEES FOR CLASS I DIRECTORS

FREDERICK W. GIBBS, age 77, became a director of eOn in 2002. In 1988, Mr. Gibbs founded Mulberry Hill Enterprises, a consulting firm specializing in telecommunications and electronics, business acquisition analysis, and international business. Previously, Mr. Gibbs served in various management and consultant roles for International Telephone and Telegraph Corporation (ITT) over a 23 year period, including Executive Vice President of ITT and Senior Group Executive of Telecommunications and Electronics, a division of ITT Corporation. Mr. Gibbs also served on the boards of CMC Industries and ACT Manufacturing. Currently, Mr. Gibbs is a practicing attorney. Mr. Gibbs earned a B.A. from Alfred University and a J.D. from Rutgers University.

JAMES W. HOPPER, age 65, was appointed as a director of eOn on June 15, 2009 to fill the vacancy that arose upon the resignation of Stephen Bowling from the Board of Directors. Mr. Hopper was appointed by the eOn Board of Directors as Chief Executive Officer of eOn on June 15, 2009. Mr. Hopper became President and Chief Executive Officer of Cortelco Systems Holding Corp. ("Cortelco") in 1997 and a director of Cortelco in 2004. Mr. Hopper also has served as President of Cortelco, Inc., a wholly-owned subsidiary of Cortelco from January 1997 until present and served as Executive Vice-President, Cortelco International, Inc. from 1994 until 1997. Mr. Hopper serves on the board of Ringer Inc. Mr. Hopper holds a B.B.A. in Management and Economics from the University of Memphis.

### CLASS II DIRECTORS WHOSE TERMS EXPIRE IN 2010

ROBERT P. DILWORTH, age 68, became a director of eOn in 1998. He served on the board of Metricom Inc., a wireless data communications company, and was its President from 1987 to 1997, its Chief Executive Officer from 1987 to 1998, and its Chairman from 1997 to 2000. Mr. Dilworth also serves as Chairman of GraphOn Corporation, a computer software company. Mr. Dilworth received a B.S. from Los Angeles State University.

DAVID S. LEE, age 72, became the Chairman of the Board of eOn in 1991. Previously Mr. Lee served as Chief Executive Officer from May 2000 through August 2001 and from November 2003 to June 2009. Mr. Lee is a director of Linear Technology Corporation, a semiconductor company. Mr. Lee also is Chairman of Symbio Group, a leader in software outsourcing and is a Senior Advisor to Silver Lake Partners, a private equity firm. Mr. Lee is Regent Emeritus for the University of California and served as a Regent from 1994—2006. Mr. Lee was also a member of the President's Council on the 21st Century Workforce, appointed by President George W. Bush, Jr. From 1985 to 1988, Mr. Lee was President and Chairman of Data Technology Corporation, a computer peripheral company. Prior to 1985, he was Group Executive and Chairman of the Business Information Systems Group of ITT Corporation, a diversified company, and President of ITT Qume, formerly Qume Corporation, a computer systems peripherals company. In 1973, Mr. Lee co-founded Qume Corporation and was its Executive Vice President until the company was acquired by ITT Corporation in 1978. Mr. Lee received an M.S. from North Dakota State University and a B.S. and an honorary doctorate from Montana State University.

## CLASS III DIRECTOR WHOSE TERM EXPIRES IN 2011

W. FRANK KING, age 70, became a director of eOn in 1998. Mr. King was a director of Concero, a software integration consulting firm, and was its President and Chief Executive Officer from 1992 to 1998. He is also director of iBasis, Inc., a telecommunications company; and Aleri Inc., a software company. Dr. King earned a Ph.D. from Princeton University, an M.S. from Stanford University and a B.S. from the University of Florida.

## BOARD OF DIRECTORS AND COMMITTEE MEETINGS

During fiscal year 2009, five meetings of the Board of Directors were held. Each of the directors during the term of their tenure attended or participated in at least 75% of the aggregate of (i) the total number of meetings of the Board of Directors and (ii) the total number of meetings held by all committees of the Board of Directors on which such director served during the year. The Board of Directors has an Audit Committee, a Compensation Committee and a Corporate Governance and Nominating Committee, the members of which are appointed by the Board of Directors. The Board of Directors established an independent Committee of the Board of Directors, which met two times during fiscal year 2009, for the purpose of negotiating the potential acquisition of Cortelco. The Board of Directors has determined that directors Dilworth, King and Gibbs are "independent directors" as defined in Rule 4200 of the Marketplace Rules of the National Association of Security Dealers, Inc. Independent directors are free of any relationship that, in the opinion of the Board, may interfere with such member's individual exercise of independent judgment in evaluating transactions contemplated by the Company. These three directors are the members of the Audit Committee, Compensation Committee and the Corporate Governance and Nominating Committee, as discussed below.

### Audit Committee

The Audit Committee consists of Robert P. Dilworth, W. Frank King, and Frederick W. Gibbs. The Audit Committee makes recommendations to the Board regarding the selection of independent auditors, reviews the scope and results of the audit engagement, approves the fees for the auditors, reviews and evaluates eOn's internal control functions, and reviews all potential conflict of interest situations. See "Certain Transactions." The Audit Committee has adopted a written charter in accordance with Section 3(a) (58) (A) of the Securities Exchange Act of 1934, which is attached as Appendix A. The Board of Directors has determined that Mr. Dilworth is an "audit committee financial expert" as defined in Item 401(h) of Regulation S-K. The Audit Committee met four times during fiscal year 2009.

## Compensation Committee

The Compensation Committee consists of Robert P. Dilworth, W. Frank King, and Frederick W. Gibbs. The Compensation Committee reviews, determines, and establishes the salaries, bonuses and other compensation of the Corporation's executive officers and administers the Corporation's Equity Incentive Plans in which executive officers and other key employees participate. The Compensation Committee did not meet during fiscal year 2009. The Compensation Committee does not have a charter.

## Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee (the "CGN Committee") consists of Robert P. Dilworth, W. Frank King, and Frederick W. Gibbs. The CGN Committee has the responsibility for matters relating to the organization and membership of the Board of Directors and for issues relating to the Company's corporate governance. The CGN Committee did not meet during fiscal year 2009.

The CGN Committee does not have a separate charter. The Board of Directors will consider all potential candidates for nomination by the Board of Directors for election as directors who are recommended by the Company's stockholders, directors, officers and employees. All director recommendations must be made in accordance with the provisions of Section 5(b) of our bylaws. All director recommendations should be sent to the CGN Committee, c/o Corporate Secretary. The CGN Committee will screen all potential director candidates in the same manner, regardless of the source of the recommendation. The CGN Committee's review typically will be based on the written materials provided with respect to a potential director candidate. The CGN Committee will evaluate and determine whether a potential candidate meets our minimum qualifications and specific qualities and skills for directors and whether requesting additional information or an interview is appropriate.

The Board of Directors has adopted the following series of minimum qualifications and specific qualities and skills for our directors, which will serve as the basis upon which potential director candidates are evaluated by the CGN Committee:

- Directors should possess the highest personal and professional ethics, integrity and values.
- Directors should have expertise and experience at policy-making levels in areas that are relevant to our business.
- Directors should have, or demonstrate an ability and willingness to acquire in short order, a clear understanding of the fundamental aspects of our business.
- Directors should be committed to representing the long-term interests of our stockholders.
- Directors should be willing to devote sufficient time to carry out their duties and responsibilities effectively and should be committed to serving on the Board of Directors for an extended period of time.
- Directors should offer their resignation in the event of any significant change in their personal circumstances, including a change in their principal job responsibilities.

## Compensation of Directors

Salaried officers of the Corporation or its subsidiaries do not receive additional compensation for serving as members of the Board of Directors. No additional compensation is paid if a full-time officer serves on any committee of the Board of Directors.

Annual cash payments of $15,000 are paid to each non-employee serving as a member of the Board of Directors. Directors are also entitled to reimbursement of expenses incurred to attend meetings. Non-employees serving as members of the Board of Directors are eligible to receive stock option grants under eOn's 1999 Equity Incentive Plan (the "1999 Plan"), which was adopted by the Board of Directors and approved by a majority of stockholders in April 1999. As of October 30, 2009, there were three non-employee directors eligible to participate in the 1999 Plan: Robert P. Dilworth, W. Frank King, and Frederick W. Gibbs. During fiscal year 2009 there were no options to purchase common stock issued to non-employee directors.

In order to recruit and retain qualified directors, the Board's intent is to make annual grants of stock options to each director. Exercise prices will be equal to the fair market value on the date of grant. Each stock option will become exercisable one year following the date of grant and expire ten years from the date of grant. Options granted under the 1999 Plan to directors may be exercised only if the holder has been in continuous service on the Board of Directors at all times since the date of the grant of the option.

**Annual Meeting Attendance**

The Company does not have a policy requiring Board members to attend annual meetings. One of the Company's directors attended the prior year's annual meeting. All five of the Company's directors are expected to attend the 2009 annual meeting.

**Stockholder Communications**

Stockholders may communicate with the Board of Directors or any individual director regarding any matter relating to the Corporation that is within the responsibilities of the Board of Directors. Stockholders, when acting solely in such capacity, should send their communications to the Board of Directors or an individual director c/o Corporate Secretary, 185 Martinvale Lane, San Jose, CA 95119. The Corporate Secretary will discuss with the Chairman of the Board or the individual director whether the subject matter of a stockholder communication is within the responsibilities of the Board of Directors. The Corporate Secretary will forward a stockholder communication to the Chairman of the Board or individual director if such person determines that the communication meets this standard.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires that the Corporation's directors and executive officers and the beneficial owners of more than 10% of the outstanding shares of the Corporation's common stock (the "Reporting Persons") file initial reports of, and subsequent reports of changes in, beneficial ownership of the common stock with the Securities and Exchange Commission (the "SEC"). The Reporting Persons are required to furnish the Corporation with copies of all Section 16(a) reports filed with the SEC. Based solely on the Corporation's review of the copies of such reports and written representations from certain Reporting Persons furnished to the Corporation, the Corporation believes that the Reporting Persons complied with all applicable Section 16(a) filing requirements during fiscal year 2009.

The Company has adopted a Code of Ethics that applies to all employees. A copy of this Code of Ethics is posted on our investor relations website—www.eoncc.com/investor_relations.htm.

**Recommendation of the Board of Directors**

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE NOMINEES FOR CLASS I DIRECTOR LISTED ABOVE.**

## PROPOSAL NO. 2: RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors has appointed GHP Horwath, P.C. as our independent registered public accounting firm for the fiscal year ending July 31, 2010. In the event the stockholders fail to ratify the appointment, the Board of Directors will reconsider its selection. Even if the selection is ratified, the Board of Directors in its discretion may direct the appointment of a different independent auditing firm at any time during the year if the Board of Directors believes such a change would be in the best interests of the Corporation and its stockholders.

## FEES PAID TO THE INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### Audit Fees

Audit Fees represent aggregate fees billed for professional services rendered in connection with the audit of the Company's annual financial statements and for reviews of the financial statements included in our Quarterly Reports on Form 10-Q/10-QSB. The aggregate fees billed for professional services rendered for the audit and review of the Company's annual financial statements for each of the years ended July 31, 2009 and 2008, were approximately $184,000 and $138,000, respectively.

### Audit Related Fees

Audit Related Fees represent aggregate fees billed for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of the Company's financial statements that are not included under the caption "Audit Fees" above. There were no audit related fees billed by GHP Horwath, P.C. for fiscal years ended 2009 or 2008.

### Tax Fees

Tax Fees represent aggregate fees billed for professional services rendered by the principal accountant for tax compliance, tax advice and tax planning. There were no tax fees billed by GHP Horwath, P.C. for fiscal years ended 2009 or 2008.

### All Other Fees

All Other Fees represent aggregate fees billed for all other products and services provided by the principal accountant not otherwise disclosed above. There were no fees from GHP Horwath, P.C. for services rendered to the Company, other than for services described above, for the years ended July 31, 2009 or 2008.

The audit committee has adopted a policy for the pre-approval of all audit and non-audit services provided by our independent auditor. Under this policy, any audit or non-audit service performed by the independent auditor must receive either specific or general pre-approval by the audit committee. Specific pre-approval is the action whereby the audit committee explicitly pre-approves the engagement of the independent auditor to perform specific audit or non-audit services. General pre-approval entails the pre-approval of the engagement of the independent auditor to perform services pursuant to pre-approval policies and procedures established by the audit committee that are detailed as to the specific types of services so pre-approved. Any service performed by the independent auditor that exceeds its pre-approved fee level must receive specific pre-approval by the audit committee. All of the services provided by GHP Horwath P.C. during fiscal years 2009 and 2008 were approved by the audit committee pursuant to this policy.

### Recommendation of the Board of Directors

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" RATIFICATION OF THE APPOINTMENT OF GHP HORWATH, P.C. AS THE CORPORATION'S INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING JULY 31, 2010.**

## OTHER MATTERS

The Board of Directors knows of no other business which will be presented at the Annual Meeting. If any other business is properly brought before the Annual Meeting, proxies in the enclosed form will be voted in respect thereof in accordance with the judgments of the persons voting the proxies.

It is not anticipated that a representative of GHP Horwath, P.C., will be present in person at the Annual Meeting. However, representatives will be available via conference call, and will have an opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions from shareholders.

## STOCKHOLDER PROPOSALS FOR 2010 ANNUAL MEETING

Stockholders interested in presenting a proposal for consideration at the Corporation's 2010 Annual Meeting of Stockholders must follow the procedures prescribed in the Corporation's amended and restated bylaws and the SEC's proxy rules. Proposals of stockholders to be presented at the Corporation's 2010 Annual Meeting of Stockholders (other than those submitted for inclusion in the Corporation's proxy materials pursuant to rule 14a-8 of the SEC's proxy rules) must be received by the Corporation (attention: Secretary) no earlier than the date which is 120 days prior to the first anniversary of this year's meeting date (August 10, 2010) and no later than the date which is 90 days prior to the first anniversary of this year's meeting date (September 9, 2010). Proposals of stockholders pursuant to Rule 14a-8 of the SEC's proxy rules that are intended to be presented at the Corporation's 2010 Annual Meeting of Stockholders must be received by the Corporation (attention: Secretary) no later than the date which is 120 calendar days before the anniversary date of the date the 2009 proxy statement is sent to the Company's shareholders (July 19, 2010), to be included in the Corporation's proxy materials relating to that meeting.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The following table sets forth information regarding the beneficial ownership of shares of our Common Stock as of September 30, 2009. The table shows ownership by:

- Each person or entity known to us to beneficially own five percent (5%) or more of the shares of our outstanding stock;
- Each of our directors;
- Each of our Named Executive Officers;
- Each nominee for director, if such person is not currently a director or executive officer; and
- All of our directors, executive officers, and director nominees as a group.

This information is based on information received from or on behalf of the named individuals. The number of shares beneficially owned includes shares of common stock subject to options exercisable or currently exercisable within 60 days of September 30, 2009, which are deemed to be outstanding for the purpose of computing the percentage ownership of the person holding the options. As of September 30, 2009, eOn had 2,735,634 shares outstanding.

Unless otherwise indicated, the principal address of each of the stockholders below is: c/o eOn Communications Corporation, 185 Martinvale Lane, San Jose, California 95119. Except as otherwise indicated in the footnotes to this table, and subject to applicable community property laws, the persons named in the table have sole voting and investment power with respect to all shares of our Common Stock beneficially owned by them.

| Name and Address of Beneficial Owner | Principal Position | Number of Shares Beneficially Owned | Percent of Class (6) |
|---|---|---|---|
| David S. Lee | Chairman of the Board | 747,114(1) | 26.31% |
| James W. Hopper | Chief Executive Officer and Director | 793(2) | * |
| Lee M. Bowling | Chief Financial Officer | 0 | NA |
| Robert P. Dilworth | Director | 24,406(3) | * |
| Frederick W. Gibbs | Director | 43,000(4) | * |
| W. Frank King | Director | 30,006(5) | * |
| All Directors and executive officers as a group (6 persons) | | 845,319 | 29.77% |

* Less than one percent.

(1) Consists of 632,586 shares held directly by David S. Lee, 45,998 shares held by the Lee Family Trust, 35,197 shares held by Cortelco Systems Puerto Rico, and 33,333 options exercisable within 60 days of September 30, 2009.

(2) Consists of 793 shares held indirectly by spouse.

(3) Consists of 24,406 options exercisable within 60 days of September 30, 2009.

(4) Consists of 25,000 shares held directly and 18,000 options exercisable within 60 days of September 30, 2009.

(5) Consists of 2,000 share held directly and 28,006 options exercisable within 60 days of September 30, 2009.

(6) The percentage of outstanding shares of common stock beneficially owned by each person is calculated based on the 2,735,634 outstanding shares of common stock as of September 30, 2009, plus the shares of common stock that the person has the right to acquire as of such date or within 60 days thereafter.

## EXECUTIVE OFFICERS

As of fiscal year ended July 31, 2009, the Company's only named executive officers were James W. Hopper, Chief Executive Officer, and Lee M. Bowling, Chief Financial Officer. Information concerning Mr. Hopper and Mr. Bowling is set forth in the Company's 10K filed for the period ended July 31, 2009, and such information is hereby incorporated by reference. On June 15, 2009, David Lee resigned as Chief Executive Officer and Stephen Bowling resigned as Chief Financial Officer and a member of the Company's Board of Directors. On June 15, 2009, James W. Hopper was appointed by the Board as Chief Executive Officer and to fill the vacancy on the Board of Directors that arose upon the resignation of Mr. Bowling. The Board appointed Lee Bowling as the Chief Financial Officer of the Company effective June 15, 2009.

## COMPENSATION DISCUSSION AND ANALYSIS

**General Philosophy.** We compensate our executives through a mix of base salary, performance incentive bonuses, long-term equity incentives, and employee benefits and perks designed to:

- Attract and retain high caliber executives and motivate them to achieve superior performance for the benefit of our stockholders;
- Motivate our executives to achieve our key strategic and financial performance measures; and
- Enhance the incentives for executives to increase our stock price and maximize stockholder value.

A portion of executive officers' compensation potential on an annual basis is at risk based on our performance. If our performance does not meet the criteria established by the Compensation Committee, incentive compensation will be adjusted accordingly. The Compensation Committee of The Board of Directors oversees our general programs of compensation and benefits for all employees and determines the compensation of our executive officers and directors. Our compensation setting process consists of establishing a base salary, a targeted, performance incentive bonus, and long-term equity compensation for each executive. We design the performance incentive bonus compensation to reward executives as a group linking this compensation to revenue and earnings growth targets as well as certain other corporate objectives. Other employees are rewarded with performance incentive bonus compensation for achieving specific operational goals within areas under their control, although company-wide performance is also a factor.

The total cash compensation (*i.e.*, base salary plus performance incentive bonus) paid to our executive officers is intended to be competitive with the total cash compensation paid to executive officers in similar positions at companies engaged primarily in the communications industry with revenues similar to ours, as well as comparable to other companies with performance similar to ours. The Compensation Committee reviews the targeted total compensation (*i.e.*, the aggregate level of compensation that we will pay if performance goals are fully met) to ensure the total compensation is aligned with our goals of comparability and incentivizing performance. We also provide our executives with a variety of other benefits that we make available generally to all salaried employees.

**The Role of the Compensation Committee.** The Compensation Committee has the primary authority to determine our compensation philosophy and to establish compensation for our executive officers. In determining the appropriate level of compensation and the total compensation package, the Compensation Committee reviews a variety of sources to determine and set compensation.

The Compensation Committee reviews the performance and compensation for our executives. Our CEO assists the Compensation Committee by providing recommendations regarding the compensation of all other executives. Each named executive officer and other senior executive management team members, in turn, participates in performance reviews with the CEO to provide input about their contributions to our success for the period being assessed. The performance of our CEO and executive management team as a group is reviewed by the Compensation Committee.

**Total Compensation.** The total compensation package offered to each executive officer is comprised of four elements which are described in more detail below:

| Element | Objective |
| --- | --- |
| Base salary | Attract and retain, reward individual performance |
| Performance incentive bonus | Achievement of financial objectives |
| Long-term equity incentive awards | Align long-term compensation with stockholder results |
| Employee benefits and perks | Provide competitive benefits |

Typically, the Compensation Committee engages in peer compensation of our executives and similar companies, taking into consideration the company's size, industry, and geographic locality, as well as the comparable executive's level of responsibility, and years of experience. Due to restructuring and changes to the Company's executive officers, the Committee did not conduct a peer comparison in fiscal year 2009. The Compensation Committee is responsible for balancing the financial requirements of the Company with the need to attract and retain key executives.

The overall result of this review provides a base point for the analysis of the Compensation Committee. We look at a number of other factors, including the total compensation, the median, mean, minimum, and maximum for each executive officer position. We strongly believe in retaining the best talent among our executive management team. Goals of the compensation program are to align compensation with business performance and the interest of stockholders, and enable the Company to attract, motivate, and retain management that can contribute to the Company's long-term success. In the case of our CEO, we also considered our performance since he was employed, and the anticipated level of difficulty of replacing him with someone of comparable experience and skill.

**Base Salaries.** We want to provide our executives with a level of assured cash compensation in the form of base salary to compensate them for the services they provide and their level of professional experience and knowledge. The Compensation Committee considers the input of the CEO with respect to the base salaries of our other executive officers. The Compensation Committee reviews senior management compensation. In establishing base salaries, we seek relevant compensation information including (1) the scope of the position; (2) the responsibilities; (3) the experience and length of service with our Company, the industry, and the community; (4) efforts and performance; (5) team building skills; (6) the observance of our ethics and compliance programs; (7) the salaries paid by competitive companies to officers in similar positions; and (8) the base salaries paid to our other executive officers. Increases in base salary from year to year are based upon the performance of the executive officers as well as market positioning considerations, as assessed by the CEO and reviewed and approved by the Compensation Committee. The Compensation Committee assesses these factors with respect to the CEO. The Compensation Committee recommends the compensation of the CEO for approval by the independent directors of the Board of Directors. The base salaries of our named executive officers are set forth below.

| Name | Annual Base Salary Paid as of July 31, 2009 | Annual in Lien of Salary for Services as CEO |
| --- | --- | --- |
| James W. Hopper | $177,091 | $52,885 |
| Lee M. Bowling | 97,614 | — |

These salaries reflect levels that the Compensation Committee concluded were appropriate based upon its general experience and review of comparables.

**Performance Incentive Bonus.** We implemented an Executive Incentive Plan (the Bonus Plan) for all of our officers, including executive officers, in 2006. The Bonus Plan, which is administered by the Compensation Committee, provides that each year the Compensation Committee will establish a method for determining the total amount of performance incentive bonuses available to be paid to all officers under the Bonus Plan (bonus pool). The bonus pool is established based upon specific measures of our financial performance, which may include sales, operating income, pre-tax income, net income, and earnings per share. The Compensation Committee, in its sole and absolute discretion, may determine the amount of each officer's actual performance incentive bonus portion of bonus pool earned under the Bonus Plan. For fiscal years 2008 and 2009, no bonus was earned due to the financial performance of the Company.

**Equity Compensation.** We may grant long-term, equity-based incentive awards to our executive officers under our 1999 and 2001 Equity Incentive Plans, as amended and restated (the Equity Incentive Plans). Under the Equity Incentive Plans, which are administered by the Compensation Committee, we may grant awards in the form of incentive stock options, nonqualified stock options, stock appreciation rights, restricted stock, phantom stock units, performance share units, and stock bonuses. Based on an assessment of competitive factors, we determine an award that is suitable for providing an adequate incentive for the performance and retention of each executive officer

Our prevailing practice has been to award stock options in order to closely align the interests of the executive officers with those of our stockholders. To encourage retention, the stock options may be granted with a vesting period of one or more years. We have taken the position that stock options should be granted with an exercise price that is equal to the fair market value of the common stock on the grant date, which is calculated as the average of the highest and lowest reported sale prices on the trading day immediately prior to the grant date. The actual value of stock option compensation, therefore, depends on the market value of the common stock increasing after the grant date. In fiscal year 2009, 2,500 stock options were awarded to a non-executive employee.

Guidelines for the number of equity incentive awards granted to each executive officer are determined using a procedure approved by the Compensation Committee based upon several factors, including the executive officer's level of responsibility, salary, performance, and the value of the stock at the time of grant. We determine the fair market value based upon the ending price of the stock on the day prior to the grant date. With the exception of promotions and new hires, we generally make these awards at the first meeting of the Compensation Committee each year following the availability of the financial results for the prior year. This timing was selected because it enabled us to consider our prior year performance and the potential recipients and our expectations for the current year. The awards also are made as early as practicable in the year in order to optimize the time-period for the incentives associated with the awards. The Compensation Committee's schedule is determined several months in advance, and the proximity of any awards to earnings announcements or other market events is coincidental. No awards were granted in fiscal year 2009 or 2008 to the Company's executive officers or directors.

Each grant allows the officer to acquire shares of common stock at the market price on the grant date over a specified period of time, up to 10 years. Option awards will provide a return to the executive officer only if the market price of the shares appreciates over the term of the award.

**Other Elements of Compensation and Perks.** In order to attract and retain employees while paying market levels of compensation, we provide our executives and other employees the following benefits and perks.

*Medical Insurance.* We provide to each executive officer and the executive officer's spouse and children such health, dental and vision insurance coverage as we may from time to time make available to our other employees. We pay a portion of the premiums for this insurance for all employees.

*Life and Disability Insurance.* We provide to each executive officer such disability and/or life insurance as we, in our sole discretion, may from time to time make available to our other executive employees of the same level of employment.

*Defined Contribution Plan.* We offer the Section 401(k) Savings/Retirement Plan (the 401(k) Plan), a tax-qualified retirement plan, to our eligible employees. Under the provisions of the plan, all participants may contribute up to 60% of their compensation, subject to limitations established by the Internal Revenue Service.

We may contribute a matching contribution of not less that 50% of the employee contributions up to 6% of the employees compensation. We may also provide special discretionary contributions equal to a percentage of an employee's annual compensation and/or an amount determined by management.

*Stock Purchase Plan.* Our 1999 Employee Stock Purchase Plan (ESPP), which qualifies under Section 423 of the Internal Revenue Code, permits participants to purchase our common stock on favorable terms. ESPP participants are granted a purchase right to acquire shares of common stock at a price that is 85% of the stock price on either the first day of the plan period or the stock price on the last day of the plan period, whichever is lower. The purchase dates occur on the last business day of August and February of each year. To pay for the shares, each participant may authorize periodic payroll deductions from their cash compensation, subject to certain limitations imposed by the Internal Revenue Code. All payroll deductions collected from the participant in a period are automatically applied to the purchase of common stock on that period's purchase date provided the participant remains an eligible employee and has not withdrawn from the ESPP prior to that date.

*Other.* We make available certain other perks or fringe benefits to executive officers and other employees, such as tuition reimbursement, travel insurance, professional society dues and food and recreational fees incidental to official company functions, including board meetings.

**Severance Benefits.** We believe that companies should provide reasonable severance benefits to employees. With respect to named executive officers, these severance benefits should reflect the fact that it may be difficult for them to find comparable employment within a short period of time. In the event of the termination of our named executive officers' employment, the post-employment pay and benefits, if any, to be received by the executive officer will vary according to the basis for their termination.

**Compensation of Executive Officers.** On June 16, 2008, the base salary of the former CEO was reduced $165,000 to $100,000 in conjunction with a Company restructure and reduction in personnel. Effective June 15, 2009, the Board of Directors appointed the former CEO of Cortelco, a company acquired by eOn on April 1, 2009, as CEO of eOn. The current CEO has an employment contract with Cortelco and receives an annual supplement of approximately $53,000 for his services as Chief Executive Officer of eOn.

The employment agreement with Mr. James W. Hopper provides that Cortelco will employ him for a period of three years commencing on April 1, 2009 with a base salary of $177,000 subject to annual review. Upon death or disability, Mr. Hopper or his heirs will receive compensation for a period of six months. The agreement may be terminated with or without cause prior to its expiration. If such termination by the Company does not constitute a termination with cause, or if such termination by Mr. Hopper is with cause, Mr. Hopper is entitled to the greater of his base salary and benefits until the expiration of the term of the employment agreement, or one year.

**Board Process.** The Compensation Committee of the Board of Directors approves all compensation and awards to executive officers. The Compensation Committee reviews the performance and compensation of the CEO. For the remaining executive officers, the CEO makes recommendations to the Compensation Committee that are subject to their review and approval. With respect to equity compensation awarded to others, the Compensation Committee grants restricted stock, generally based upon the recommendation of the CEO, and has delegated option and restricted stock granting authority to the CEO for employees who are not officers.

## EXECUTIVE COMPENSATION

### Summary Compensation Information

The following table sets forth certain information concerning compensation earned for the fiscal years ended July 31, 2009 and 2008, by the Company's Chief Executive Officer, and by executive officers who earned more than $100,000 in salary and bonus during fiscal 2009 (the "named executive officers").

### SUMMARY COMPENSATION TABLE

| Name and Principal Position | Fiscal Year | Salary | Bonus | Option Awards (1) | All Other Compensation (2) | Total Compensation |
|---|---|---|---|---|---|---|
| David S. Lee (3) | 2009 | $ 88,462 | $— | $— | $ 3,025 | $ 91,487 |
| Chairman | 2008 | 157,500 | — | — | — | 157,500 |
| James W. Hopper (4) | 2009 | 23,839 | — | — | 13,129 | 36,968 |
| Chief Financial Officer | 2008 | — | — | — | — | — |
| Lee M. Bowling (5) | 2009 | 13,140 | — | — | 1,437 | 14,577 |
| Vice President; Chief Operating Officer | 2008 | — | — | — | — | — |
| Stephen R. Bowling (6) | 2009 | 145,809 | — | — | 4,911 | 150,720 |
| Chief Financial Officer (former) | 2008 | 213,431 | — | — | 2,944 | 216,375 |

(1) There were no options issued to the Named Executive Officers as compensation in the last two years.
(2) The amounts in All Other Compensation column are more fully described in the table under "All Other Compensation—Supplemental".
(3) On June 16, 2008, Mr. Lee's salary was reduced from $165,00 to $100,000. On June 15, 2009, Mr. Lee ceased receiving a salary.
(4) Includes Cortelco compensation for Mr. Hopper beginning June 15, 2009, the effective date of his appointment as Chief Executive Officer. Mr. Hopper has an employment agreement with Cortelco and is also compensated by eOn which pays for an annuity, home office and insurance in lieu of salary for his services as Chief Executive Officer of eOn.
(5) Includes Cortelco compensation for Mr. Lee Bowling beginning June 15, 2009, the effective date of his appointment as Chief Financial Officer.
(6) Mr. Stephen Bowling served as Chief Financial Officer until June 15, 2009. His 2009 salary includes $35,232 in accrued vacation and severance payments.

See Compensation Disclosure and Analysis above for a complete description of compensation plans pursuant to which the amounts listed under Summary compensation Table were paid or awarded and the criteria for such payment.

All stock options vest and become exercisable upon a change in control, as defined in the Equity Incentive Plans

### All Other Compensation—Supplemental

The table below sets forth other compensation information during fiscal year 2009 for our Named Executive Officers.

| Name and Principal Position | | 401K | Insurance Premiums | Payment in Lieu of Salary | Total All Other Compensation |
|---|---|---|---|---|---|
| David S. Lee | Chairman; Chief Executive Officer (former) | $ — | $3,025 | $ — | $ 3,025 |
| James W. Hopper | Chief Executive Officer | 715 | 3,600 | 8,814 | 13,129 |
| Lee M. Bowling | Chief Financial Officer | 394 | 1,043 | — | 1,437 |
| Stephen R. Bowling | Chief Financial Officer (former) | 2,000 | 2,911 | — | 4,911 |

### Stock Option Grants in Fiscal Year 2009

During fiscal year 2009, no options to purchase shares of the Company's common stock were issued to directors or executive officers of the Company.

### Aggregated Option Exercises in Fiscal 2009 and Fiscal Year-End Option Values

The table below sets forth information regarding the outstanding equity awards held by our named executive officers as of July 31, 2009. Options generally vest at either a rate of (1) 12.5% six months after the grant date and equal monthly installments thereafter over a 42 month period, or (2) 25% one year after the grant date and equal monthly installments thereafter over a three year period. These options have a term of 10 years.

| | Shares Acquired On | Value | Number of Securities Underlying Unexercised Options | | Value of Unexercised In-The-Money Options | |
|---|---|---|---|---|---|---|
| Name | Exercise | Realized | Exercisable | Unexercisable | Exercisable | Unexercisable |
| David S. Lee | — | — | 33,333 | — | $— | $— |
| Stephen R. Bowling (1) | — | — | 20,499 | — | $— | $— |

(1) Unexercised options for Mr. Bowling expired three months after his resignation as Chief Financial Officer, or September 15, 2009.

### Outstanding Equity Awards

The table below sets forth information regarding the outstanding equity awards held by our Named Executive Officers as of July 31, 2009.

| Name | Number of Securities Underlying Unexercised Options Exercisable | Number of Securities Underlying Unexercised Options Unexercisable | Option Exercise Price | Option Expiration Date |
|---|---|---|---|---|
| David S. Lee | 1,000 | — | $59.380 | 4/5/2010 |
| | 1,000 | — | $ 5.000 | 5/22/2011 |
| | 1,000 | — | $ 3.400 | 5/22/2012 |
| | 1,000 | — | $ 5.000 | 5/20/2013 |
| | 1,000 | — | $ 9.650 | 7/30/2013 |
| | 18,333 | — | $16.350 | 2/24/2014 |
| | 10,000 | — | $ 7.150 | 6/14/2016 |
| Stephen R. Bowling (1) | 1,000 | — | $59.380 | 4/5/2010 |
| | 1,000 | — | $ 5.000 | 5/22/2011 |
| | 1,000 | — | $ 3.400 | 5/22/2012 |
| | 1,000 | — | $ 5.000 | 5/20/2013 |
| | 1,000 | — | $ 9.650 | 7/30/2013 |
| | 5,499 | | $16.350 | 2/24/2014 |
| | 10,000 | — | $ 7.150 | 6/14/2016 |

(1) Unexercised options for Mr. Bowling expired three months after his resignation as Chief Financial Officer, or September 15, 2009. Mr. Bowling did not exercise any options prior to September 15, 2009.

### Option Exercises During Fiscal Year 2009

During fiscal year 2009, there were no stock option exercises by our Named Executive Officers.

## DIRECTOR COMPENSATION

We compensate our directors for their services as members of the Board of Directors and committees with a combination of annual retainers and stock options. Directors who are not employees are eligible to receive compensation for their services as directors, while directors who are employees of the Company are ineligible to receive separate director compensation. The following table sets forth a summary of compensation we paid to our non-employee directors for fiscal year 2009.

| Name | Fees Earned Or Paid in Cash | Option Awards (1) | Total |
|---|---|---|---|
| Robert P. Dilworth | $15,000 | $— | $15,000 |
| Frederick W. Gibbs | 15,000 | — | 15,000 |
| W. Frank King | 15,000 | — | 15,000 |

(1) During fiscal year 2009, there were no options to purchase common stock issued to the directors listed.

Eligible directors are paid a quarterly retainer of $3,750. All directors are reimbursed for their out-of-pocket expenses incurred in connection with attending meetings of the Board of Directors and its committees. In addition, eligible directors are periodically awarded options to purchase stock, at the discretion of the Board of Directors.

## AUDIT COMMITTEE REPORT

In accordance with its written charter adopted by the Board of Directors, the Audit Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, and financial reporting practices of the Corporation. During fiscal year 2009, the Audit Committee met four times.

In discharging its oversight responsibility as to the audit process, the Audit Committee obtained from the independent auditors a formal written statement describing all relationships between the auditors and the Corporation that might bear on the auditors' independence consistent with Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees," and discussed with the auditors their independence from the Corporation and its management.

The Audit Committee discussed and reviewed with the independent auditors all communications required by generally accepted auditing standards, including those described in Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees" and, with and without management present, discussed and reviewed the results of the independent auditors' examination of the financial statements.

The Audit Committee reviewed the audited financial statements of the Corporation for the fiscal year ended July 31, 2009, with management and the independent auditors. Management has the responsibility for the preparation of the Corporation's financial statements, and the independent auditors have the responsibility for the examination of those statements.

In connection with the standards for independence of the Corporation's independent accountants promulgated by the Securities and Exchange Commission, during the Corporation's 2009 fiscal year, the Audit Committee considered in advance of the provision of any non-audit services by the Corporation's independent accountants whether the provision of such services is compatible with maintaining the independence of the Corporation's independent accountants.

The Audit Committee has received the written disclosures and the letter from the independent accountant required by applicable requirements of the Public Company Accounting Oversight Board regarding the independent accountant's communications with the audit committee concerning independence, and has discussed with the independent accountant the independent accountant's independence.

Based upon the above-mentioned review and discussions with management and the independent auditors, the Audit Committee recommended to the Board that the Corporation's audited financial statements be included in its Annual Report on Form 10-K for the fiscal year ended July 31, 2009, for filing with the Securities and Exchange Commission. The Audit Committee also recommended the appointment, subject to stockholder approval, of GHP Horwath, P.C. as the Corporation's independent auditors and the Board concurred in such recommendation.

The Audit Committee of the Board

Robert P. Dilworth, Chairperson
W. Frank King
Frederick W. Gibbs

## SECURITIES AUTHORIZED FOR ISSUANCE UNDER EQUITY COMPENSATION PLANS

The following table summarizes the securities authorized for issuance under the Corporation's equity compensation plans as of July 31, 2009.

| | Number of securities to be issued upon exercise of outstanding options, warrants, and rights | Weighted-average exercise price of outstanding options, warrants, and rights | Number of securities remaining available for future issuance under plan |
|---|---|---|---|
| Equity compensation plans approved by security holders: | | | |
| 1999 Equity Incentive Plan | 147,563 | $13.65 | 135,902 |
| 1999 Employee Stock Purchase Plan | 1,222 | $ 0.98 | 66,604 |
| Equity compensation plans not approved by security holders: | | | |
| 2001 Equity Incentive Plan | 25,800 | $ 5.67 | 67,012 |
| TOTAL | 174,585 | $12.38 | 269,518 |

The 2001 Equity Incentive Plan contains provisions similar to the 1999 Equity Incentive Plan, with the notable exception that grants to officers and directors are prohibited.

## CERTAIN TRANSACTIONS

Approval by the Company's Board of Directors is required for any new related party transactions that are not in the ordinary course of business. The Company's management is responsible for identifying transactions that would be related party transactions requiring review by the Board of Directors.

*Cortelco, Inc. and Cortelco Systems Holding Corp.*

Cortelco, Inc. is a subsidiary of Cortelco and a supplier of Millennium and eQueue peripheral hardware. On March 8, 2008, the Company and Cortelco entered into an outsourcing agreement whereby Cortelco provided management for all of eOn's U.S. operations. Included in the management services were sales, marketing, product management, engineering, technical support, quality assurance, accounting, and information technology. Charges incurred for products and services in fiscal year 2009 prior to the Company's acquisition of Cortelco on April 1, 2009 were approximately $535,000 and approximately $113,000 was included in the accounts payable balance at April 1, 2009. David Lee, the Company's Chairman, was the Chairman and a controlling shareholder of Cortelco.

*Cortelco Systems Puerto Rico*

Cortelco Systems Puerto Rico ("CSPR") was a wholly-owned subsidiary of the Company until July 31, 2002, 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 each of the fiscal years ended July 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| **Receivable from CSPR** | | |
| Balance at beginning of period | $— | $ 9 |
| Receivable acquired in merger | 6 | — |
| Purchases from CSPR | 9 | 7 |
| Payments to CSPR | (14) | (16) |
| Balance at end of period | $ 1 | $— |

The Company acquired 300,100 shares (or 18.89%) of CSPR stock as the result of the acquisition of Cortelco on April 1, 2009. These shares were valued at approximately $111,000 at April 1, 2009 based on the quoted market price of CSPR's shares at that date. Because David Lee, Chairman of eOn, is a significant shareholder of CSPR, eOn is accounting for this investment using the equity method of accounting, and eOn's proportionate share of CSPR's earnings or losses, are included in income in the consolidated financial statements. The Company's proportionate share of CSPR's net income was approximately $29,000 for the period from April 1, 2009 through July 31, 2009. Summarized financial information of CSPR as of July 31, 2009 and for the period from April 1, 2009 through July 31, 2009, is as follows (in thousands):

| | July 31, 2009 |
|---|---|
| Assets: | |
| Current Assets | $3,151 |
| Property and equipment | 63 |
| Other assets | 94 |
| Total assets | $3,308 |
| Liabilities and stockholders' equity: | |
| Current liabilities | $1,864 |
| Total liabilities | 1,864 |
| Stockholders' equity | 1,444 |
| Total liabilities and stockholders' equity | $3,308 |

| | Period from April 1, 2009 through July 31, 2009 |
|---|---|
| Revenues | $ 3,388 |
| Cost of revenues | (2,562) |
| Gross profit | 826 |
| Expenses | (675) |
| Net income | $ 151 |

*Spark Technologies, Inc.*

Aelix and eOn China performed engineering development projects for Spark Technologies, Inc ("Spark"), a California company that is majority owned by David Lee, the Chairman and major shareholder of eOn. 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. 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 ("Symbio"). eOn holds an equity interest in Symbio. The following represents related party transactions for each of the fiscal years ended July 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| **Receivable from Spark** | | |
| Balance at beginning of period | $— | $ 108 |
| Engineering development and costs | 3 | 370 |
| Payments received from Spark | — | (344) |
| Payables offset against accounts receivable | (3) | (134) |
| Balance at end of period | $— | $ — |

| | 2009 | 2008 |
|---|---|---|
| **Payable to Spark** | | |
| Balance at beginning of period | $— | $ 37 |
| Operating costs billed to eOn | 67 | 97 |
| Payments to Spark | (64) | — |
| Balance offset against receivable from Spark | (3) | (134) |
| Balance at end of period | $— | $ — |

*Symbio*

On August 1, 2007 and August 27, 2007, the Company made strategic investments in Symbio of $500,000 and $400,000 for 250,000 and 200,000 shares, respectively, or approximately 3% of Symbio. Symbio is a China-based provider of software development, testing, and globalization outsourcing services to multinational companies. The investment is expected to establish eOn as a 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 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 45,000 shares of Symbio as compensation for Mr. Lee's services. These shares have been valued at $90,000, and have been recorded as an increase in investments and a capital contribution by David Lee.

Symbio currently shares office space and personnel with eOn in China and is billed for expenses attributable to Symbio's business. Symbio has contracted to assist eOn in the United States with software development. The following represent related party transactions for each of the fiscal years ended July 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| **Receivable from Symbio** | | |
| Balance at beginning of period | $ 84 | $— |
| Billings and accruals for operating expenses | 272 | 128 |
| Payments received from Symbio | (347) | (44) |
| Balance at end of period | $ 9 | $ 84 |

| | 2009 | 2008 |
|---|---|---|
| **Payable to Symbio** | | |
| Balance at beginning of period | $ — | $— |
| Billings and accruals for engineering services | 11 | — |
| Payments to Symbio | — | — |
| Balance at end of period | $ 11 | $— |

*Symbio-ES Park 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 (Note 11). The eOn Board of Directors has approved the sale of eOn's interest in the Joint Venture to Symbio in return for Symbio's assumption of the promissory note. The sale has not yet been completed.

The following represents related party transactions for the fiscal year ended July 31, 2009 (in thousands):

| **Receivable from Hangzhou** | |
|---|---|
| Balance at beginning of period | $— |
| Billings for product and services | 220 |
| Payments received from Hangzhou | (66) |
| Balance at end of period | $154 |

*Joint Venture*

On October 24, 2008, eOn China invested RMB 400,000 (approximately $58,000) into a joint venture in TaiCang, China**.** eOn China 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. The following represents related party transactions for the fiscal year ended July 31, 2009 (in thousands):

| **Receivable from TaiCang** | |
|---|---|
| Balance at beginning of period | $— |
| Billings for product and services | 135 |
| Payments received from TaiCang | (71) |
| Balance at end of period | $ 64 |

## FORM 10-K

We have filed an Annual Report on Form 10-K for the year ended July 31, 2009 with the Securities and Exchange Commission. A copy of the 10-K is incorporated into our annual report, which has been mailed concurrently with this Proxy Statement to all stockholders entitled to notice and to vote at the annual meeting. The financial and other information contained on Form 10-K is hereby incorporated by reference into this proxy statement.

Dated: November 6, 2009

THE BOARD OF DIRECTORS OF
EON COMMUNICATIONS CORPORATION

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**Appendix A**

**eOn Communications Corporation**
**Audit Committee Charter**

This Audit Committee Charter (Charter) has been adopted by the Board of Directors (the Board) of eOn Communications Corporation (the Corporation). The Audit Committee of the Board (the Committee) shall review and reassess this charter annually and recommend any proposed changes to the Board for approval.

***Role and Independence: Organization***

The Committee assists the Board in fulfilling its responsibility for oversight of the quality and integrity of the accounting, auditing, internal control and financial reporting practices of the Corporation. It may also have such other duties as may from time to time be assigned to it by the Board. The membership of the Committee shall consist of at least three directors, who are each free of any relationship that, in the opinion of the Board, may interfere with such member's individual exercise of independent judgment. Each Committee member shall also meet the independence and financial literacy requirements for serving on audit committees, and at least one member shall have accounting or related financial management expertise, all as set forth in the applicable rules of the NASDAQ. The Committee shall maintain free and open communication with the independent auditors and Corporation management. In discharging its oversight role, the Committee is empowered to investigate any matter relating to the Corporation's accounting, auditing, internal control or financial reporting practices brought to its attention, with full access to all Corporation books, records, facilities and personnel. The Committee may retain outside counsel, auditors or other advisors.

One member of the Committee shall be appointed as chair. The chair shall be responsible for leadership of the Committee, including scheduling and presiding over meetings, preparing agendas, and making regular reports to the Board. The chair will also maintain regular liaison with the CEO, CFO, and the lead audit partner.

The Committee shall meet at least four times a year, or more frequently as the Committee considers necessary. At least once each year, the Committee shall have separate private meetings with the independent auditors and management.

***Responsibilities***

Although the Committee may wish to consider other duties from time to time, the general recurring activities of the Committee in carrying out its oversight role are described below. The Committee shall be responsible for:

- Recommending to the Board the independent auditors to be retained (or nominated for shareholder approval) to audit the financial statements of the Corporation. Such auditors are ultimately accountable to the Board and the Committee, as representatives of the shareholders.
- Evaluating, together with the Board and management, the performance of the independent auditors and, where appropriate, replacing such auditors.
- Obtaining annually from the independent auditors a formal written statement describing all relationships between the auditors and the Corporation, consistent with Independence Standards Board Standard Number 1. The Committee shall actively engage in a dialogue with the independent auditors with respect to any relationships that may impact the objectivity and independence of the auditors and shall take, or recommend that the Board take, appropriate actions to oversee and satisfy itself as to the auditors' independence.
- Reviewing the audited financial statements and discussing them with management and the independent auditors. These discussions shall include the matters required to be discussed under Statement of

Auditing Standards No. 61 and consideration of the quality of the Corporation's accounting principles as applied in Financial Reporting, including a review of particularly sensitive accounting estimates, reserves and accruals, judgmental areas, audit adjustments (whether or not recorded), and other such inquiries as the Committee or the independent auditors shall deem appropriate. Based on such review, the Committee shall make its recommendation to the Board as to the inclusion of the Corporation's audited financial statements in the Corporation's Annual Report on Form 10-K.

- Issuing annually a report to be included in the Corporation's proxy statement as required by the rules of the Securities and Exchange Commission.
- Overseeing the relationship with the independent auditors, including discussing with the auditors the nature and rigor of the audit process, receiving and reviewing audit reports, and providing the auditors full access to the Committee (and the Board) to report on any and all appropriate matters.
- Discussing with a representative of management and the independent auditors:
  (1) The interim financial information contained in the Corporation's Quarterly Report on Form 10-QSB prior to its filing,
  (2) The earnings announcement prior to its release (if practicable), and
  (3) The results of the review of such information by the independent auditors.
- Discussing with management and the independent auditors the quality and adequacy of and compliance with the Corporation's internal controls.
- Discussing with management and/or the Corporation's general counsel any legal matters (including the status of pending litigation) that may have a material impact on the Corporation's financial statements, and any material reports or inquiries from regulatory or governmental agencies.
- Reviewing the annual management letter with the independent auditors and discuss with the independent auditors their evaluation of the Corporation's Chief Financial Officer and financial staff.
- Reviewing and approving fees for all audit and permissible non-audit services to be performed by the independent audit firm.

The Committee's job is one of oversight. Management is responsible for the preparation of the Corporation's financial statements and the independent auditors are responsible for auditing those financial statements. The Committee and the Board recognize that management and the independent auditors have more resources and time, and more detailed knowledge and information regarding the Corporation's accounting, auditing, internal control and financial reporting practices than the Committee does; accordingly the Committee's oversight role does not provide any expert or special assurance as to the financial statements and other financial information provided by the Corporation to its shareholders and others.

# U.S. SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED JULY 31, 2009**

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

For the transition period from to

Commission File Number 000-26399

# eOn Communications Corporation
**(Exact name of registrant as specified in its charter)**

| | |
|---|---|
| **DELAWARE** | **62-1482176** |
| **(State of incorporation)** | **(I.R.S. Employer Identification No.)** |

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

**(408) 694-9500**
**(Telephone number)**

**Securities registered pursuant to Section 12(b) of the Act: None**
**Securities registered pursuant to Section 12(g) of the Act:**
**Common Stock, $0.005 par value per share**
**(Title of each class)**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Check whether the issuer is not required to file reports pursuant to Section 13 or 15(d) of the Exchange Act ☐

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (check one):

Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☒
(Do not check if a smaller 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 ☒

The aggregate market value of the shares of common stock held by non-affiliates of the registrant was approximately $1,093,061 based upon the closing sale price as reported by the NASDAQ Stock Market on the last business day of the registrant's most recently completed second fiscal quarter (January 31, 2009).

2,735,634 shares of Common Stock, par value $0.005, were outstanding as of September 30, 2009.

**DOCUMENTS INCORPORATED BY REFERENCE**

Certain portions of the registrant's Proxy Statement for the 2009 Annual Meeting of Shareholders are incorporated by reference in Part III.

* - Information is not required because the registrant is a smaller reporting company

## PART 1

### FORWARD-LOOKING STATEMENTS

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 elsewhere in Item 6. 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 consolidated financial statements and the notes included thereto in Item 7.

## ITEM 1. DESCRIPTION OF BUSINESS.

### BACKGROUND

eOn Communications Corporation™ ("eOn" or the "Company") is a global provider of communications solutions incorporated in Delaware in July 1991. Backed with over 20 years of telecommunications engineering expertise, the Company's solutions enable its customers to easily leverage flexible 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 Architectures (SOA). Whether businesses are looking to leverage the advantages of enterprise IP telephony or contact center technologies, eOn Communications delivers products that improve business performance. Sales and support of products in Asia is done through eOn Communications (Beijing) Corporation Limited ("eOn China"), the Company's wholly owned subsidiary based in Beijing, China.

On April 1, 2009, the Company acquired Cortelco Systems Holding Corp. ("Cortelco"). David Lee, Chairman of eOn, was the Chairman and the controlling shareholder of Cortelco. Cortelco, Inc. is a wholly-owned subsidiary of Cortelco Holding. Cortelco provides commercial grade telephone products primarily for use in businesses, government agencies, colleges and universities, telephone companies, and utilities. Cortelco sells primarily through large national distributors with whom it has long term relationships.

The Company's principal executive offices are located at 185 Martinvale Lane, San Jose, California 95119. The telephone number at that address is (408) 694-9500. The Company also has offices located in Kennesaw, GA; Corinth, MS; and Beijing, PRC.

### BUSINESS OVERVIEW

eOn focuses its resources on developing and marketing products that help businesses communicate more effectively and efficiently with their customers. Communications technology is a critical factor for businesses in their effort to gain a competitive edge. To enable businesses to succeed in this area, eOn offers the Millennium Converged Communications Platform and the eQueue Multimedia Contact Center Solution.

Cortelco is committed to fulfilling the communication needs of business and organizations worldwide. Cortelco's mission is to provide our valued customers with telephone products together with service and support. Cortelco has formed partnerships with distributors and provides the support needed to supply customers with sales, marketing, customer service, technical support and training.

**Millennium Converged Communications Platform**

The Millennium is a modular, multi-shelf system combining hardware design with the flexibility of easily configurable software supporting both basic and complex telephony operations. It is a flexible system that can be configured to operate as a PBX, key system, hybrid, tandem switch channel bank or as a conduit for data applications. The Millennium is digital end-to-end and VoIP compatible. Its system design is based on distributed processing and DSP technology. Management believes this product offers businesses many advantages:

- **Voice over Internet Protocol (VoIP)**

  Choosing the right solution for enterprise communications needs should not be constrained by technology limitations. The Millennium System offers support of VoIP, digital and analog technologies—enabling businesses to deploy traditional, IP telephony or a combination of both when and where it's appropriate for the organization. Whether the need is to connect several phones in an office, hundreds of phones in a campus environment or clusters of remote workers, Millennium VoIP enables the creation of a virtual enterprise, maximizing employee productivity while reducing networking and equipment costs.

- **Flexible Desktop Solutions**

  The Millennium offers a selection of telephones and desktop appliances to meet the communications needs of employees. Multiple models of VoIP and traditional phones as well as button expansion modules are offered that provide access to the Millennium's call processing features.

- **Advanced Call Routing**

  The Millennium offers an array of call routing features necessary to route calls to the appropriate resource throughout an enterprise. Call routing plans can be simple or complex depending on business requirements. The Millennium supports up to 64 call routing plans with each plan allowing for 60 different sequences of instructions for customized call handling needs.

- **Flexible Networking Options**

  The Millennium offers cost-effective results oriented solutions for a variety of networking applications. From campus environments to distributed call centers, the Millennium provides networking capabilities and data connectivity in industries where a communications hub is required to provide a central point of entry into a system or network.

- **Multimedia Messaging**

  With the Millennium's unified messaging option, employees and customers can use the communications medium that they prefer or that is convenient—any combination of voice, fax, or email. The unified messaging option module provides users the ability to access and manage all of their voice, fax and email messages together from a single, highly intuitive interface.

- **Automatic Call Distribution**

  Automatic Call Distribution (ACD) is an effective tool both for handling a high volume of calls and managing call center operations. It is also a tool that small to medium sized call centers need, but they often do not want the burdens that can accompany full-featured ACD equipment. The Millennium offers a flexible solution by providing call routing capabilities that easily distribute calls to equalize the workload across employees and provide callers with prompt service.

**Millennium Business Benefits**

Business communications powered by the Millennium Converged Communications Platform give employees productivity enhancing features that enable new levels of collaboration and productivity. All forms of networking technology are supported, including VoIP, digital as well as traditional. This gives enterprises the option to deploy advanced technologies and, at the same time, preserve investment in legacy applications and investments. Lastly, since the Millennium system offers a wide variety of communications solutions, enterprises can invest in one comprehensive platform that meets the needs of the entire enterprise. This lowers the total cost of ownership and simplifies ongoing administrative and expansion needs.

**eQueue Multi-Media Contact Center Solution**

The eQueue® Multi-Media Contact Center is our product for customers who are looking to evolve from being a traditional call center company to a multimedia contact center. Unlike traditional telecom solutions, the eQueue System is designed to replace proprietary communication devices such as Private Branch Exchanges (PBX), Automatic Call Distributors (ACD), Interactive Voice Response (IVR) systems, recording systems, workforce management systems, voice mail systems, and Computer Telephony Integration (CTI) middleware systems with an all-in-one blended communications system. Because the eQueue platform is built on an "open" unified architecture, organizations can eliminate the need for complex communications systems integration while reducing start-up and maintenance costs, simplifying administration, and increasing ease of customization. The eQueue enables enterprises to communicate more effectively with customers, lowers operational costs and increases agent productivity.

The eOn eQueue solution offers many advantages in the complex and competitive customer interaction management marketplace.

- **Universal Queue**

  The eQueue's universal queue approach enables contact centers to interact with their customers regardless of the media. The capability not only provides customers with consistent interaction management across all media, but also includes extensive skills-based routing for all contacts that can match the most appropriate resource to a customer's need.

- **Comprehensive**

  The eQueue offers comprehensive applications including ACD with skills based routing, PBX with VoIP capabilities, email and web chat applications with an integrated knowledge base, integrated voice response, voice mail with unified messaging, quality assurance recording, workforce management and a complete range of desktop devices and applications.

- **Open**

  The eQueue is an open standards-based solution based on the Linux™ operating system. Using an open solution not only provides for ease of integration, but also provides the contact center with support for evolving future needs.

- **Modular**

  The eQueue provides the flexibility to add, combine and customize important features and functions to meet the individual needs of a contact center. The eQueue is compatible with most third party systems, allowing companies the ability to integrate other applications.

- **Scalable**

  For contact centers with as few as 10 agents to those with over 1000 agents, the eQueue provides the functionality required.

- **Proven**

  With a quarter century of contact center expertise, eOn has served customers in a variety of markets including Multi-Media Contact Centers, Traditional Call Centers, General Business Applications, Service Providers and Emergency 911 Centers. The eQueue is a fully redundant solution designed to perform in a mission-critical environment.

**Benefits of an eQueue Solution**

The benefits of using an eQueue include improved customer satisfaction, retention and loyalty, increased agent productivity and lower total cost of ownership.

- **Improved Customer Satisfaction, Retention & Loyalty**

  Outstanding customer service is the primary goal of most companies. Attaining this goal is often the direct result of how effectively voice calls, emails and web-based communications are routed and managed within the contact center. The eQueue provides a universal queue together with a common management interface for all types of customer contacts. This, combined with skills-based routing capabilities, ensures that contact centers can match the best possible resource to meet a customer's need consistently across all media types. Additionally, the eQueue's open platform provides ease of integration with customer relationship management ("CRM") and other enterprise applications, allowing a high level of business-driven management of all customer interactions. This enables improved customer satisfaction and retention with consistent service delivery across all contact channels.

- **Increased Productivity**

  Multi–media contact blending is one way to significantly improve productivity. In traditional call centers, individual agents can only handle one contact type, such as voice calls. Therefore, different pools of agents must be created to manage different forms of media. To cover peak demand times, each unique agent pool must be staffed to maximum capacity. With the eQueue, however, all agents can effectively handle all types of contacts, coverage is more flexible, fewer agents can handle the same demand, and idle agents can be minimized. Agent productivity is also increased through the use of features such as skills-based routing, remote agent support, unified reporting of all media types, quality monitoring and dynamic supervisory control.

- **Lower Total Cost of Ownership**

  The eQueue solution offers an overall total lower cost of ownership—lower capital costs and lower operating costs, which equates to a higher return on investment. Integration costs are kept to a minimum with eQueue's set of applications and open platform. Because the eQueue architecture is open and modular, the contact center is also prepared for future growth.

**Cortelco Products**

The telephone industry has evolved in recent years with cordless telephones, cell phones, VOIP and other computer based voice/data products broadening their scope of application. Most homes in the United States have moved to cordless products and have perhaps one corded or wired telephone. Despite the decline in the number of corded telephones in the residential market, there has been less migration to cordless and cellular in the business/commercial, government and institutional applications. Cortelco is an industry leader that markets a traditional design/style single line corded telephone. In order to maintain this leadership, Cortelco must leverage their existing business relationships and introduce new products that address the needs of the converging communications marketplace.

## CUSTOMERS

During fiscal year 2009, the Company recognized revenue from the federal government of $1,638,000, or 15% of total revenue. Revenue from four major distributors acquired with the acquisition of Cortelco on April 1, 2009 was $2,937,000 or 28% of total revenue for the year ended July 31, 2009. Revenue from one of these distributors, Graybar Electric Co., Inc., was $1,525,000 or 14% of the total revenue for the year ended July 31, 2009.

## STRATEGY

Key elements of our strategy for future growth are as follows:

- **Expand International Market Presence**

  eOn has had success in recent years penetrating international markets. Examples include deployment of eQueue and Millennium systems in China and Korea. The anticipated growth rates for both enterprise communications and contact center solutions, specifically in China, are much greater than those in more traditional markets such as North America and Europe. eOn has established an operation and a customer base in China and will continue to invest in product, infrastructure and partnerships necessary to capitalize on this emerging market opportunity.

- **Provide Migration Paths to Encourage Millennium Customer VoIP Adoption**

  Many existing Millennium customers require that they be able to support more VoIP based applications. Since the Millennium has an architecture that supports traditional TDM switching and IP-based transmission technology, eOn is able to provide a solution that allows customers to migrate to IP at their own pace and ultimately reap the cost savings and business performance enhancement benefits of converged networks. eOn offers customer migration programs to encourage IP adoption, that preserve a customer's existing investment in the Millennium system.

- **Maintain Our Investment in the eQueue Business**

  In spite of the maturity of the North American market, we believe our eQueue Multi-Media Contact Center Solution offers advantages that will enable eOn to capture new customers. We will continue to support our core product offering to improve our ability to win competitive bids and provide additional solutions to our existing customers.

- **Maintain and Develop Strategic Relationships**

  eOn and Cortelco believe that it is critical that strategic relationships with major distributors be maintained and enhanced. The Company seeks new relationships that fit and do not create conflicting efforts within its distributor network. In the highly competitive telephony business, Cortelco sells products that are not leading edge technology. Product sales are based on a reputation for quality and service that has been built over many years.

- **Introduce a new VOIP Platform**

  During the next fiscal year, eOn will introduce a new VOIP platform that will support PBX and ACD functions. The goal is to provide all of the features inherent in our existing products while at the same time improve our capability to seamlessly network over distributed environments.

- **Opportunistically Explore Emerging Market Opportunities**

  eOn will actively pursue other business options that will favorably position shareholders to participate in emerging market opportunities.

## PRODUCTS AND PRODUCTS UNDER DEVELOPMENT

Our products and products under development include:

### Millennium Converged Communications Platform

The Millennium is a VoIP-enabled PBX offering customer contact center and computer telephony integration features. It can be expanded in a modular manner from 32 to 1,024 communication ports and provides enterprises with the ability to increase the number of ports and add new features through the simple installation of add-on cards and software.

The Millennium offers a broad feature set, including:

- **IP Telephony**

  The Millennium system offers IP, digital, and analog technologies—allowing customers to deploy traditional, IP telephony or a combination of both when and where it's right for their organization. Whether needing to connect several phones in an office, hundreds of phones in a campus environment or clusters of remote workers, Millennium allows customers to create a virtual enterprise, maximizing productivity while reducing networking and equipment costs.

- **Modular Architecture**

  The modular architecture of the Millennium allows it to be configured in a variety of ways—PBX, IP gateway, key system, hybrid, tandem switch, channel bank, protocol converter, or conduit for data applications. Digital and IP switching capability, universal ports, highly adaptable programmability, and architectural flexibility are inherent in the system design.

- **Easy System Management**

  The Millennium's real-time monitoring and management tools operate network-wide, with reporting capabilities that help to maximize system reliability across the entire enterprise. Extensive management and cost control features ensure system administrators can account for costs, track phone usage patterns, and perform traffic analysis. Additionally, Millennium's database programming interface is intuitive and easy to use making installations simple and economical to maintain.

- **Business Telephones**

  Bringing all the features and services of the Millennium to each desktop helps employees communicate better and improves productivity company-wide. Customers can choose from a wide selection of digital and IP telephones to match the specific needs of each employee. If the enterprise is seeking to bring VoIP to the desktop, the eNterprise series of IP telephones provide the feature sets of traditional digital telephone with IP telephony administrative advantages. eNterprise digital phones are a good match for users not requiring IP connectivity but who are in need of advanced call handling capabilities.

- **VoIP and Traditional Networking Options**

  Utilizing circuit-switched and in the future, IP networking, the Millennium's networking capabilities facilitates communications across geographically dispersed locations. The system's networking solutions help businesses consolidate resources as well as ensure call answering and routing consistency throughout all locations.

- **ACD and Reporting**

  Automatic call distribution is fully integrated with the Millennium providing the enhanced call handling features required in call center environments. The Millennium coupled with its real-time reporting software allows managers to use both historical and real time data to reallocate agents and resources, forecast future requirements, and plot the long range calling patterns to determine if service level objectives are being met.

- **CTI**

  The Millennium offers a standards-based computer/telephony integration (CTI) solution that includes support for native CSTA interfaces and third-party TAPI, TSAPI and CSTA applications. It provides customers with a common open-platform for building cost-effective computer telephony solutions. Through integration with existing customer databases and third-party TAPI applications, the Millennium can provide visual call control and call monitoring to enable presentation of caller information based on Caller ID, ANI, or DNIS.

**eQueue Multi-Media Contact Center Solution**

The eQueue Multi-Media Contact Center Solution is designed for mission-critical contact center environments. The eQueue incorporates a range of integrated applications, including:

- **eQueue ACD**

  We built the eQueue with an understanding of the critical nature of call center operations, and the eQueue ACD application is at the core of the eQueue solution. It offers a single routing engine for all contact types and is designed with an extensive set of flexible routing capabilities. These capabilities include a single multi-media queue for all contact types, skills based routing for all media types, real-time supervision, and virtual agent groups. Effective customer service is a direct result of contact centers routing customers to the right agents quickly and efficiently.

- **eQueue PBX**

  The eQueue comes complete with an extensive set of telephony features, telephony grade reliability, PBX capabilities, multi-featured phones, PC phones, and networking interfaces. The eQueue has a hybrid architecture that supports traditional TDM switching infrastructure and IP-based technology, including the support of VoIP desktop phones and software phones.

- **eQueue IVR**

  The eQueue Interactive Voice Response (IVR) provides contact centers with a customer self-service option by providing voice announcements, customized greetings, variable delay messages, and interactive multi-level menu selections. With advanced scripting, thousands of customized voice files can be selected and combined so callers hear promotional, call status, and informational updates. Additionally, the eQueue IVR offers features that give contact centers an advantage in servicing their customers, such as real-time statistics, whisper announce, automated paging, callback and web callback capabilities.

- **eQueue Recording**

  eQueue Recording is an application that allows agent and/or customer interactions to be recorded and stored for later review. eQueue Recording supports two distinct recording types: On-Demand Recording and Quality Assurance Recording. Agents can initiate an On-Demand Recording session at any time during the call by simply pressing a button on their phone or screen. Quality Assurance Recording sessions, on the other hand, are automatically activated based on the agent’s group, type of call, number of calls previously recorded for the agent and number of calls previously recorded for the group. A client application provided with this feature allows supervisors to schedule, maintain and administer all recordings from their desktop.

- **eQueue Reporting**

  eQueue Reporting provides reports and displays, available in both real-time and historical formats. They combine to give contact centers the information needed to manage efficiency, agent performance, and service delivery levels. The unified architecture of the eQueue uses a single, standards-based reporting engine to track contact center resources, applications and interactions. Because of this architecture, eQueue Reporting enables companies to build comprehensive, end-to-end management reports that can also include information from multiple disparate systems. eQueue Reporting delivers consolidated data for voice, email and Web that is timely, easily accessible and presented in a form that can be customized to fit the unique needs of a contact center.

- **eQueue Interfaces**

  eQueue Interfaces, including industry-standard CTI, gives companies the extensibility and integration tools necessary to customize the eQueue solution to meet the specific needs of each customer. The eQueue can be tightly integrated with other enterprise applications—including CRM, knowledge bases, self-service applications and e-commerce systems.

- **eQueue WorkForce**

  eQueue Workforce provides an integrated workforce scheduling and forecasting solution that allows customers to have the ability to improve the quality of customer interactions, more closely adhere to service level goals, and lower their contact center workforce costs.

**eNterprise SIP Business Telephones**

The ability to conduct real time communication and collaboration is a critical component to an organization’s success. Telephones should offer the utmost in functionality, intuitive access to advanced telephone features and deliver maximum productivity to users all across the enterprise. eOn Communications’ eNterprise SIP Business Telephone series offers a variety of telephones which provide time saving and productivity enhancing features over IP networks.

eNterprise SIP Business Telephones leverage standards-based technologies to extend communications features of carrier class VoIP soft switch platforms to users over IP networks. These telephones access the potential of IP networks and deliver time-proven telephony applications to the desktop. Features offered include:

- SIP for Business—support for Session Initiation Protocol provides access to advanced business IP telephony features and applications;
- Simplified Management—dynamic IP addressing allows phones to be relocated quickly and easily without a service technician or IT support;
- Multiple Power Options—support for power over Ethernet IEEE 802.3af technology;
- Excellent Voice Quality—voice compression codecs optimize bandwidth and audio quality;
- Built-in Speakerphone—enhanced voice quality and operation with acoustic echo cancellation;
- Programmable Feature Keys—optional 22 or 32 keys for customized access to advanced calling features; and
- Optional Button Expansion Module—provides up to 192 programmable feature keys.

**eConn**

eOn is developing a new VOIP platform that will be named “eConn” and projected for availability in the second quarter of fiscal year 2010. This new platform will support over 500 telephony features which can be delivered through a new easy-to-use graphical user interface (“GUI”). The eConn platform will provide options to add unified messaging, auto-attendant, presence management tools and mobility applications. eConn will utilize a native Computer-Supported Telecommunications Applications (“CSTA”) interface making it easier to support an extensive range of third-party Computer Telephony Integration (“CTI”) applications.

**Cortelco**

Cortelco focuses its resources on developing and marketing telephony products that help businesses communicate more effectively, efficiently, and reliably with their customers. Communications technology is a critical factor for businesses in their effort to gain a competitive edge. To enable businesses to succeed in this area, Cortelco offers corded and cordless analog and digital telephones capable of operating in the multiple PBX, Key System and Centrex environments.

- **Corded**

  Cortelco offers a wide variety of corded telephones in multiple colors and with multiple features (including message waiting indicator, flash, hold, mute, speakerphone, headset capable and one to four line models) for home, office, warehouse, shop or other business use. Models include traditional 2500 desk and 2554 wall models with multiple features and colors. Cortelco offers several models and model families which focus on business, schools, healthcare and other institutional applications. Cortelco also offers products that target markets for the aged and disabled with models that feature large easy-to-see dial buttons, emergency one-touch dial memory, Braille key pad, and large backlit LCD displays.

- **Cordless**

  Cortelco has new products slated for introduction, including DECT (Digital European Cordless Telecommunications) cordless to complement the current cordless analog models as well as expanded corded line powered caller ID models, and a new four line model to complement the new “7 Series” family of business corded telephones.

- **SIP VOIP**

  Cortelco is introducing a new SIP (Session Initiation Protocol) VoIP telephone to expand our Internet Protocol (IP) family of products, which have been certified to comply with equipment manufactured by the largest IP network equipment supplier in the United States. Further expansion of the IP family of products is planned.

**SALES AND MARKETING**

In North America, we sell, install, maintain and support our eQueue Multi-Media Contact Center through our direct sales force and through selected value added resellers (VAR). We sell the Millennium through our network of U.S. based dealers and VAR. Installation and support of Millennium systems is largely performed by the eOn dealer and VAR network. eNterprise SIP Business phones are to be sold through VoIP equipment suppliers and distributors. Sales and support of products in Asia is done through eOn Communications (Beijing) Corporation Limited (“eOn China”), the Company’s wholly owned subsidiary based in Beijing, China.

Our marketing objective is to position eOn as a proven provider of enterprise communications and contact center solutions. Our target customer base continues to be mid-size businesses that are looking to deploy or replace their legacy communications systems with next generation IP telephony and multi-media contact center solutions. We will continue to promote solutions within selected market segments, including the U.S. Federal Government, education/school systems, providers of outsourced contact center solutions, traditional and online retailers. We will continue to reach prospects in these markets via web-based marketing initiatives, customer referral programs and joint marketing efforts with our US and international dealers and VAR.

Cortelco products are primarily sold through several distribution channels. An integral part of Cortelco’s strategy is to strengthen and protect its relationships with resellers, distributors and other vendors to encourage these parties to recommend or distribute Cortelco’s products and to add resellers both domestically and internationally. Cortelco currently invests, and intends to continue to invest, significant resources to expand its sales and marketing capabilities.

Cortelco's marketing objective is to offer competitively priced, but with superior quality and reliability, customer premise communication equipment through our distributor channel. Our distributor's target customer base consists of businesses, government, schools, healthcare and other institutions that seek legacy as well as IP telephone equipment.

**RESEARCH AND DEVELOPMENT**

The market for our products is characterized by rapidly changing technology, evolving industry standards and frequent product introductions. We believe that our future success depends in large part upon our ability to continue to enhance the functionality and capabilities of our products. We plan to extend the functionality of our hardware and software technology by continuing to invest in research and development.

Cortelco's approach is to identify market and product applications that fit core competencies as well as to seek new technologies. Cortelco does not engage in product development engineering, but rather partners with companies that either already have the desired technology or possess the technical background to develop the desired products. The recent merger with eOn provides additional technical resources that can be applied, on an as needed basis, to evaluate new products and particularly those for VOIP applications. Cortelco's "vendor/partner" strategy has resulted in favorable credit terms and the ability to buy small quantities of many models with various colors and features as well as avoid the large cost of baseline hardware and software engineering and development.

**MANUFACTURING**

We currently use two contract manufacturers to produce the Millennium—Ayrshire Electronics, Inc (formerly ACT Electronics, Inc.), and Innovative Circuits, Inc. Both contract manufacturers perform printed circuit board assembly and soldering, in-circuit and functional testing and packaging. We believe that Ayrshire Electronics and Innovative Circuits have sufficient capacity and technical capabilities to respond to foreseeable increases in customer demand and advances in technology. After final assembly by either manufacturer, we inspect and perform quality assurance testing prior to shipment to our dealers or customers. We make purchases from Ayrshire and Innovative Circuits through purchase orders.

We currently use Clover Electronics, Inc. to perform printed circuit board assembly and soldering, in-circuit and functional testing and packaging of boards for our eQueue product line. We believe that Clover Electronics has sufficient capacity and technical capabilities to respond to foreseeable increases in customer demand and advances in technology.

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 could cause delays and result in additional expenses.

Cortelco buys many of its product families from various offshore suppliers with whom we have worked for several years. We manufacture our 2500/2554/3554 product lines from both offshore and domestically produced components at our Corinth, Mississippi facility. We are dependent on sole source suppliers for certain components and finished goods. Interruptions in the availability of these items 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 could cause delays and result in additional expenses.

## 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.

The competitive arena for our products is changing very rapidly. Well-established companies and many emerging companies are developing products to address the PBX, ACD, VoIP and Multi-Media Contact Center markets. While the industry remains fragmented, it is rapidly moving toward consolidation, driven by both emerging companies' desires to expand product offerings and established companies' attempts to acquire new technology and reach new market segments.

We compete on the basis of providing reliable integrated voice and data communications systems that can be customized and configured rapidly and at a low cost. Although we believe that we compete favorably with respect to these factors, we may not be successful in this rapidly changing and highly competitive market.

Many of our current and potential competitors have significantly greater financial, technical, marketing, customer service and other resources, greater name 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.

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

- **VoIP Communications Equipment Suppliers**

  Our major competitors for the Millennium are the companies that provide products for the traditional voice communications market. These products include PBXs, voicemail systems and related products. These companies include Avaya, Mitel, NEC, Toshiba, and Siemens.

- **VoIP Telephone Suppliers**

  Our major competitors for the eNterprise SIP Business Telephones include Polycom, Aastra, Linksys, Snom, and Grandstream among others. Each providesVoIP phones families that are compatible with major VoIP softswitch suppliers.

- **Contact Center Vendors**

  Our major competitors for the eQueue are the traditional ACD or call center vendors who have large customer bases, brand recognition, reliable scaleable product offerings and have extensive experience with voice applications. However, their contact center solutions often consist of multiple separate technologies with little integration, have proprietary system architectures, and are expensive. These competitors include Avaya, and Aspect Software. We also face competition from other contact center competitors that feature integrated applications (all-in-one products) that are built on Intel hardware platforms. These competitors have reduced the need for systems integration and are often aggressively priced, but also lack brand recognition and do not have the depth of telephony capability of the traditional vendors. These vendors include Interactive Intelligence and Syntellect.

- **Data Communications Equipment Suppliers**

  Many data communications equipment suppliers have a strategic objective of penetrating the voice communications and customer interaction management market, thereby substantially expanding their total served market. Foremost of these data-centric companies pursuing this strategy is Cisco Systems. Although data communications companies generally do not have substantial experience with voice communications systems, these companies can be expected to compete intensely in this market.

- **Email Management and Web Center Software Suppliers**

  There are many competitors that supply software for managing the rapidly increasing volumes of web and email communications for e-commerce. These competitors' products and services manage inbound and outbound email and web-based communications, while facilitating the delivery of specific and personalized information to each customer. They strive to enable e-businesses to enhance customer relationships, generate additional revenue opportunities, and reduce the cost of online communications. Email and Web center software competitors include eGain, Kana Software, and LivePerson. We intend to compete in the web center software and services market by providing integrated voice and data communications in a contact center environment or providing a direct upgrade path from a Web center to an integrated contact center.

- **Application Solution or Hosted Solution Providers**

  Emerging areas for competitors are firms that deliver enterprise communications and contact center functionality from a web based hosted platform. Oracle, Five9, and 8 X 8 are examples of companies offering this model in the market place. Advantages typically promoted are investment flexibility with monthly or transaction based licensing, immediate access to technology upgrades, and disaster recovery options. Business issues that must be considered include IP voice quality, system and application scalability, and limitations in system management and control.

- **Cortelco Competition**

  The market in which Cortelco participates is intensely competitive, rapidly evolving and subject to technological changes. Cortelco considers KGP Logistics (formerly Embarq or Sprint North Supply), Telematrix, SciTec, Vtech(AT&T), Aastra and Panasonic to be key competitors for current products. Key competitive factors include product quality, features, functionality, product differentiation and reputation. Cortelco does not sell into the extremely competitive and low margin retail market but rather sells products into the commercial, government, independent telephone companies and various institutional markets.

## INTELLECTUAL PROPERTY

We rely on patent, trademark, copyright, trade secret protection and confidentiality and license agreements with our employees, clients, partners and others to protect our proprietary rights. We currently have numerous patents issued in the United States related to our business.

Our patent position, and that of technology companies in general, involves complex legal and factual questions and, therefore, the validity and enforceability of our patents cannot be predicted with certainty. The steps we have taken to protect our proprietary rights might not be adequate. Third parties might infringe or misappropriate our patents, trade secrets, trademarks and similar proprietary rights. Furthermore, others might independently develop or duplicate technologies similar to ours.

If we fail to protect our intellectual property, our business, financial condition and results of operations could be harmed. In addition, we may have to litigate to enforce our intellectual property rights, protect our trade secrets or determine the validity and scope of the proprietary rights of others. Such litigation could result in substantial costs and diversion of management and technical resources, which could harm our business, financial condition and results of operations.

"eOn," "eQueue," "Millennium", "eNterprise", "WorkSpace", "eConn", "Cortelco", "Centurion", "Tel-Flash", "Tel-Trex", & "Trendline" are trademarks of eOn and Cortelco.

## EMPLOYEES

As of July 31, 2009, we had 61 employees. We had 46 employees in the United States, 14 employees in China and 1 employee in Canada. The mix of employees was 13 in sales and marketing, 17 in research, development, and professional services, 17 in general and administration, and 14 in manufacturing and distribution. On April 1, 2009, the Company acquired Cortelco, with whom eOn previously had an outsourcing agreement whereby Cortelco provided management for all U.S. operations for eOn. Included in the management services were sales, marketing, product management, engineering, technical support, quality assurance, accounting, and information technology. The Company also utilizes temporary employees, independent contractors, and part-time employees as needed. None of our employees are represented by a labor union and we consider our employee relations to be good.

## EXECUTIVE OFFICERS

The following table sets forth information about our Directors and Executive Officers:

| NAME | AGE | POSITION |
|---|---|---|
| **David S. Lee** | **72** | **Chairman and Director** |
| **James W. Hopper** | **65** | **Chief Executive Officer and Director** |
| **Lee M. Bowling** | **54** | **Chief Financial Officer** |

**DAVID S. LEE,** became the Chairman of the Board of eOn in 1991. From 2003 until June 2008, he served as President and Chief Executive Officer. Previously Mr. Lee served as Chief Executive Officer from May 2000 through August 2001. Mr. Lee is a director of Linear Technology Corporation, a semiconductor company, Chairman of the Symbio Group, a global outsourcing company and serves as a Senior Advisor for Silver Lake, a private equity investment firm for technology. Mr. Lee is also Regent Emeritus for the University of California. From 1985 to 1988, Mr. Lee was President and Chairman of Data Technology Corporation, a computer peripheral company. Prior to 1985, he was Group Executive and Chairman of the Business Information Systems Group of ITT Corporation, a diversified company, and President of ITT Qume, formerly Qume Corporation, a computer systems peripherals company. In 1973, Mr. Lee co-founded Qume Corporation and was its Executive Vice President until the company was acquired by ITT Corporation in 1978. Mr. Lee received an M.S. from North Dakota State University and a B.S. and an honorary doctorate from Montana State University.

**JAMES W. HOPPER,** became Chief Executive Officer and director of eOn in June 2009. Prior to joining the Company, Mr. Hopper has been President of Cortelco, Inc. since 1997. Prior to 1997, he was Executive Vice President of Cortelco International, Inc., President and Chief Executive Officer of CMC Industries, and Executive Vice President and Plant Manager of Cortelco USA. Mr. Hopper's experience also includes thirty-five years with ITT Corporation where he held numerous senior management positions. He has served on the Board of Directors of CMC Industries, Cortelco Systems Puerto Rico, International Telecommunications Corp., Ringers, Inc., and KSS Mid-South, Inc. Mr. Hopper holds a B.B.A in Management and Economics from the University of Memphis.

**LEE M. BOWLING,** became Chief Financial Officer of eOn in June 2009. Prior to joining the Company, Mr. Bowling has been Vice President and Chief Financial Officer of Cortelco, Inc. since 2004. Prior to 2004, Mr. Bowling was Controller of Cortelco, Inc from 1997 until 2004. His experience also includes various supervisory and management positions with ITT Telecommunications and Telephone Electronics Corporation. Mr. Bowling holds a B.S. in Accounting from Mississippi State University.

## ITEM 1A. RISK FACTORS

## 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.

*eOn has experienced substantial losses and may continue to incur losses in the future.*

For the year ended July 31, 2009, eOn had a net loss of $339,000. eOn has incurred substantial losses since inception through July 31, 2009 resulting in an accumulated deficit of $48,856,000. eOn may not be able to achieve profitability from operations in the future.

*Downturns in the U.S. economy adversely affect operating results.*

Weakness in the U.S. 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 our fiscal 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 and Aspect;
- Data communication equipment suppliers, such as Cisco Systems and Huawei;
- VoIP telephone manufacturers, such as Polycom, Linksys, Snom, Grand Stream and Aastra
- Hosted solution providers including 8 X 8, Five9, Echopass and Oracle.
- Email management and web center software suppliers, such as eGain Communications, Kana Software, and LivePerson;
- Voice communications equipment suppliers, such as Avaya, Mitel, NEC, Toshiba, and Siemens.
- Customer relationship management (CRM) suppliers such as Oracle, and SalesForce.com.
- Telephony product suppliers such as KGP Logistics, Telematrix, SciTec, Vtech, Aastra, and Panasonic

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.

*Our strategic relationships with third parties may not be successful.*

Our ability to develop our business, particularly in China, will depend on our ability to identify partnership opportunities and to enter into suitable commercial arrangements and to maintain close working relationships with these and other industry participants. Our success in this area will also depend on our ability to select and evaluate suitable projects, as well as to consummate transactions in a highly competitive environment.

To develop our business, we plan to use the business relationships of our management team in order to form strategic relationships. These relationships may take the form of joint ventures with other private parties and local government bodies and contractual arrangements with other companies. We may not be able to establish these strategic relationships, or, if established, may not be able to maintain these relationships, particularly if members of the management team leave us. In addition, the dynamics of our relationships with strategic partners may require us to incur expenses or undertake activities we would not otherwise be inclined to incur or undertake to fulfill our obligations to these partners and/or maintain these relationships. If we do not successfully establish or maintain strategic relationships, we may not be able to achieve our business goals and that could adversely affect our anticipated results of operations and financial condition.

*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 Ayrshire 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 buy many of our Cortelco products from various offshore suppliers with whom we have worked for several years. We are dependent on sole source suppliers for certain components and finished goods. Interruptions in the availability of these items 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 could cause delays and result in additional expenses.

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

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

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

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

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

As of September 30, 2009, our executive officers, directors and principal stockholders and their affiliates beneficially owned 872,368 shares, or 30.5% 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. PROPERTIES.

The Company leases property as detailed in the following table.

| LOCATION | APPROXIMATE SIZE | LEASE EXPIRATION DATE | INTENDED USE |
|---|---|---|---|
| Kennesaw, Georgia, USA | 2,002 sq. ft. | August 2012 | Office |
| Corinth, Mississippi, USA | 77,000 sq. ft. | December 2010 | Office/Warehouse |
| San Jose, California, USA | 3,780 sq. ft. | December 2010 | Office |

Aggregate annual rental payments for the Company's facilities are approximately $233,000. The Company's current facilities are generally adequate for anticipated needs over the next 12 to 24 months. The Company does not own any real property.

## ITEM 3. LEGAL PROCEEDINGS.

From time to time, we may be a party to legal proceedings incidental to our business. We do not believe that any of these proceedings will have a material adverse effect on our business or financial condition.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

On July 28, 2009, the 2008 Annual Meeting of Stockholders of eOn Communications Corporation was held to vote on the following routine items:

(1) To elect one Class III director to serve on the Company's Board of Directors for a term of three years or until his/her successor is elected and qualified;

| | Votes For | Votes Withheld |
|---|---|---|
| W. Frank King | 1,862,247 | 221,763 |

(2) To ratify the appointment of GHP Horwath, P.C. as our independent registered public accounting firm.

| Votes For | Votes Against | Votes Abstained | Broker Non-Votes |
|---|---|---|---|
| 2,046,520 | 31,494 | 5,995 | — |

Based upon the voting results, each of the above items was approved by shareholders.

The terms of directors David S. Lee, James W. Hopper, Robert P. Dilworth, and Frederick W. Gibbs continued after the Annual Meeting.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES.

### Market Information

Our common stock began trading on the NASDAQ Stock Market under the symbol EONC on February 4, 2000. Prior to that date, there was no public market for our common stock. The Company split its common shares in a 5 to 1 reverse split effective at market close on April 18, 2008. Stock data for all periods presented have been adjusted to reflect the reverse split. The following table sets forth, for the fiscal quarters indicated, the high and low sales prices of our common stock as reported by the NASDAQ Stock Market.

| QUARTER ENDED | HIGH | LOW |
|---|---|---|
| July 31, 2009 | $0.90 | $0.59 |
| April 30, 2009 | $0.90 | $0.37 |
| January 31, 2009 | $0.80 | $0.30 |
| October 31, 2008 | $1.25 | $0.54 |
| July 31, 2008 | $1.40 | $0.66 |
| April 30, 2008 | $2.42 | $1.31 |
| January 31, 2008 | $4.65 | $1.70 |
| October 31, 2007 | $5.15 | $3.70 |

The prices in the table above represent inter-dealer prices, without retail mark-up, mark-down or commission and may not reflect actual transactions.

On June 23, 2008 the Company received a NASDAQ Staff Deficiency Letter from the NASDAQ Stock Market. The letter stated that for the prior 30 consecutive business days, the closing bid price per share of the Company's common stock had been below the $1.00 minimum per share requirement for continued listing as set forth in NASDAQ Marketplace Rule 4310(c)(4). According to the Marketplace Rule 4310(c)(8)(D), the Company was provided 180 calendar days, or until December 22, 2008, to regain compliance. On October 22, 2008, pursuant to the suspension of NASDAQ's bid and market value rules, NASDAQ notified the Company that eOn had until March 26, 2009 to regain compliance.

On December 23, 2008, March 25, 2009, and July 13, 2009, NASDAQ suspended the bid price and market value of publicly held shares requirement, effectively freezing the stage in the compliance period until July 31, 2009. The Company had 66 calendar days, or until October 7, 2009 to regain compliance. On August 26, 2009, NASDAQ notified the Company that it has regained compliance with Listing Rule 5550(a)(2) and the matter is now closed.

### Holders

As of September 30, 2009, there were approximately 240 shareholders of record of our common stock and, to the best of our knowledge, approximately 2,400 beneficial owners whose shares of common stock were held in the names of brokers, dealers, and clearing agencies.

### Dividends

During fiscal 2009 and 2008, we did not declare any cash dividends on our capital stock. We currently intend to retain any earnings to finance the operation and expansion of our business and, therefore, do not expect to pay cash dividends on our common stock in the foreseeable future.

### Securities Authorized for Issuance Under Equity Compensation Plans

Information with respect to Equity Compensation plans is set forth under Part III of this report under the caption "Item 11. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

### Recent Sales of Unregistered Securities

On April 1, 2009, the Company acquired Cortelco for up to $11,000,000 in cash. Cortelco merged with a newly formed wholly-owned subsidiary of eOn and is now a wholly-owned subsidiary of eOn. David Lee, Chairman of eOn, was the Chairman and the controlling shareholder of Cortelco. In exchange for all of the outstanding shares of Cortelco stock, Cortelco shareholders received an initial aggregate payment of $500,000. The Company executed a note payable to Cortelco's former shareholders for $10,500,000. The note is non-interest bearing and is contingent primarily upon the level of Cortelco earnings after closing and all Cortelco shareholders are eligible to receive quarterly payments thereunder in cash until the full consideration has been paid. The note was issued pursuant to an exemption from registration under The Securities Act of 1933 in reliance upon Section 4(2) and Regulation D. The fair value of the note payable obligation assumed on the April 1, 2009 acquisition date was estimated using a discounted cash flow method, and together with approximately $124,000 in acquisition costs, resulted in a total purchase price of $5,054,000.

### Stock Repurchases in the Fourth Quarter

None.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

### 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 customers to use the eOn products 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 Architectures (SOA).

The Company completed its acquisition of Cortelco on April 1, 2009. For additional information, refer to the amended and restated Merger Agreement among the Company, Cortelco Holding, and a subsidiary of the Company, setting forth the terms and conditions of the acquisition, filed as an exhibit to the Company 8-K dated as of December 18, 2008. Cortelco, Cortelco Holding's wholly owned subsidiary, provides customer premise equipment (CPE) commercial grade telephone products primarily for use in businesses, government agencies, colleges and universities, telephone companies, and utilities. Cortelco has formed strategic alliances with distributors and provides the support needed to supply customers with quality sales, marketing, customer service, technical support, and training.

The Company incurred a net loss of $339,000 for fiscal year 2009. The increase in revenue and gross margin resulting from the acquisition of Cortelco was partially offset with inputed interest on the note payable to Cortelco's shareholders. Imputed interest is dependent on Cortelco's projected earnings and resulting payments pursuant to the note payable to Cortelco's former shareholders. Cash flows generated by Cortelco subsequent to the merger will first be used to pay the obligation under the merger agreement until the full $11,000,000 is satisfied.

### CRITICAL ACCOUNTING POLICIES

Critical accounting policies are defined as those that are reflective of significant judgments and uncertainties and that could potentially result in materially different results under different assumptions and conditions. We believe that our critical accounting policies are limited to those described below. For a detailed description of our accounting policies, see Footnote 2, "Summary of Significant Accounting Policies," in the notes to the consolidated financial statements.

*Revenue Recognition*

The Company's revenues from its four 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 | | |
| Cortelco Products | 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 phones 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 Staff Accounting Bulletin No. 104, *Revenue Recognition*, and Statement of Position No. 97-2, *Software Revenue Recognition*.

*Product Warranties*

We generally provide customers a one year product warranty from the date of purchase. We estimate the costs of satisfying warranty claims based on analysis of past claims experience and provide for these future claims in the period that revenue is recognized. The cost of satisfying warranty claims, which approximates 0.6% - 2.3% of product revenues, has historically been comprised of materials and direct labor costs. We perform quarterly evaluations of these estimates and any changes in estimates, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

*Inventory Obsolescence*

We carry inventories at the lower of cost or market. This policy depends on the timely identification of those items included in inventory whose market price may have declined below carrying value, such as slow-moving or obsolete items, and we record any necessary valuation reserves. We perform an analysis of slow-moving or obsolete inventory on a quarterly basis and any necessary valuation reserves, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

*Allowance for Uncollectible Accounts Receivable*

We typically grant standard credit terms to customers in good credit standing. As a result, we must estimate the portion of our accounts receivable that are uncollectible and record any necessary valuation reserves. We generally reserve for estimated uncollectible accounts on a customer-by-customer basis, which requires us to make judgments about each individual customer's ability and intention to fully pay balances payable to us. We make these judgments based on our knowledge of and relationships with our customers and we update our estimates on a monthly basis. Any changes in estimate, which can be significant, are included in earnings in the period in which the change in estimate occurs.

*Stock-Based Compensation*

We adopted the provisions of, and account for stock-based compensation in accordance with, Statement of Financial Accounting Standards No. 123R ("SFAS 123R"), *Share Based Payment* on August 1, 2006. We elected the modified-prospective method, under which prior periods are not revised for comparative purposes. Under the fair value recognition provisions of this statement, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense on a straight-line basis over the requisite service period, which is the vesting period.

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

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

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

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

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

See Note 13 Stock-Based Compensation to the consolidated financial statements for further information regarding SFAS 123R.

*Deferred Taxes*

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Because of substantial losses from inception through fiscal year 2009, the Company has available net operating loss (“NOL”) carry-forwards of approximately $25,000,000.

Accounting principles generally accepted in the United States of America require the recording of a valuation allowance against the net deferred tax asset associated with this NOL and other timing differences if it is “more likely than not” that the Company will not be able to utilize the NOL to offset future taxes. Due to the size of the NOL carry-forward in relation to the Company's taxable income in recent years and to the continuing uncertainties surrounding future earnings, to the extent that it is more likely than not that deferred tax assets may not be realized, management has provided for an allowance on its net deferred tax assets. The Company currently provides for income taxes only to the extent of expected cash payments of taxes, primarily state and foreign income taxes.

Should the Company's earnings trend cause management to conclude that it is more likely than not the Company will realize all or a material portion of the NOL carry-forward, management would record the estimated net realizable value of its deferred tax asset at that time. The Company would then provide for income taxes at a rate equal to its combined federal and state effective rates, which would approximate 39% under current tax rates. Subsequent revisions to the estimated net realizable value of the deferred tax asset could cause the provision for income taxes to vary significantly from period to period, although the Company's cash tax payments would remain unaffected until the benefit of the NOL is utilized.

**RESULTS OF OPERATIONS**

The following table presents our operating ratios for fiscal years 2009 and 2008:

| | For the Years Ended July 31, | |
|---|---|---|
| | 2009 | 2008 |
| Net revenue | 100.0% | 100.0% |
| Cost of revenue | 55.1% | 45.1% |
| Gross profit | 44.9% | 54.9% |
| Operating expenses: | | |
| Selling, general and administrative | 34.1% | 55.7% |
| Research and development | 8.7% | 37.8% |
| Other expense | 1.1% | 4.0% |
| Total operating expense | 43.9% | 97.5% |
| Income (loss) from continuing operations | 1.0% | (42.6)% |
| Interest (expense) income, net | (4.4)% | 1.7% |
| Equity earnings of an unconsolidated equity investee | 0.3% | 0.0% |
| Loss before income taxes and discontinued operations | (3.1)% | (40.9)% |
| Income taxes | 0.0% | 0.0% |
| Loss before discontinued operations | (3.1)% | (40.9)% |
| Discontinued operations | 0.0% | (8.5)% |
| Net Loss | **(3.1)%** | **(49.4%)** |

**NET REVENUE**

Revenue is comprised of product revenue generated by our Millennium and Cortelco product lines and product and maintenance and professional service revenue generated by our eQueue product line. Net revenue increased approximately 52% to $10,645,000 for the year ended July 31, 2009 from $6,994,000 for the previous fiscal year. The increase reflects $4,231,000 in Cortelco revenue subsequent to the acquisition on April 1, 2009, partially offset by lower eQueue revenue from products, maintenance and professional services, and lower Millennium revenue compared to the prior year. Sales of Millennium systems and eQueue systems were adversely impacted by slowdowns in key U.S. government and education markets and increased competition.

## 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 phones and systems. Gross profit increased approximately 25% to $4,782,000 for the year ended July 31, 2009 compared to $3,839,000 for the previous fiscal year. The increase in gross profit reflects inclusion of Cortelco's gross profit and increased Millennium gross profit partially offset by lower eQueue product, maintenance and professional service revenues. Our gross margins were 45% and 55% for fiscal years 2009 and 2008, respectively. The decrease in margin percentage reflects lower maintenance and professional services revenue, which historically have higher margins. The inclusion of Cortelco activity beginning April 1, 2009, which historically has a lower margin, also contributed to the decline in gross margin percentages.

## SELLING, GENERAL, AND ADMINISTRATIVE EXPENSE

Selling, general and administrative expenses were $3,633,000 for the year ended July 31, 2009, a decline of 7% from $3,893,000 in the prior fiscal year. The decrease reflects lower personnel costs, lower travel and entertainment expenses and lower overhead expenses, partially offset by the inclusion of Cortelco's expenses subsequent to April 1, 2009.

## RESEARCH AND DEVELOPMENT EXPENSE

Research and development expenses are primarily comprised of personnel and related expenses for our engineering staff. Our research and development efforts are currently concentrated on development of the new eConn IP-PBX/ACD with continued enhancements for our eQueue and Millennium product lines. Research and development expenses were $926,000 for the year ended July 31, 2009, which represents a decrease of approximately 65% from $2,641,000 in fiscal year 2008. The decrease primarily reflects lower personnel costs, travel, and overhead expenses. The Company capitalized approximately $243,000 of software development costs related to a new IP PBX that is under development. Amortization of the capitalized cost is expected to begin in the second fiscal quarter of 2010 when the product is available for general release to customers. The Company closed its engineering facility in India effective April 1, 2008 and incurred approximately $244,000 in severance expenses in fiscal year 2008.

## OTHER INCOME AND EXPENSE, NET

Other income and expense, net is primarily comprised of bank service charges, franchise taxes, currency differences and gains or losses from disposal of fixed assets. Other expense was $120,000 in fiscal 2009 compared to $283,000 in fiscal year 2008. The decrease is primarily a result of losses related to the closure of the India engineering facility and losses on disposal of assets in India in fiscal year 2008.

## INTEREST EXPENSE, NET

Interest expense was $466,000 in fiscal year 2009 and interest income was $117,000 in fiscal year 2008. The increase in fiscal year 2009 reflects imputed interest of $480,000 on the note payable to the former Cortelco shareholders.

## INCOME TAX EXPENSE

No income tax benefit from continuing operations was recorded for the years ended July 31, 2009 and 2008 as management was unable to conclude that it was more likely than not that the income tax benefit would be realized.

## DISCONTINUED OPERATIONS

Discontinued operations for the year ended July 31, 2008 is comprised of $604,000 of losses from eOn IP Voice, Inc. and a $13,000 gain on disposal during the third fiscal quarter of 2008.

## LIQUIDITY AND CAPITAL RESOURCES

As of July 31, 2009, we had cash and cash equivalents of $3,010,000 and a working capital balance of $7,802,000. At July 31, 2008, our short-term investments were invested in auction rate securities. These securities were sold at par in October 2008 and are now invested in liquid treasury securities.

Our operating activities resulted in net cash inflows of $1,256,000 for fiscal year 2009 compared to net cash outflows of $2,731,000 for fiscal year 2008. The increase in net operating cash flow for the current fiscal year primarily reflects lower inventories and higher accounts payable partially offset by net loss (adjusted for non cash items) for the year and higher trade and related party accounts receivable. Net operating cash outflow for fiscal year 2008 was primarily the result of net loss (adjusted for non cash items) for the year, higher inventory and prepaid assets and lower accounts payable, partially offset by lower accounts receivable.

Our investing activities resulted in net cash inflows of $209,000 for fiscal year 2009 compared to net cash inflows of $1,776,000 in fiscal year 2008. Cash provided by investing activities during fiscal year 2009 was primarily related to net sales of marketable securities, partially offset by net cash of $400,000 used in the acquisition of Cortelco, capitalized software development costs of $243,000, an investment of approximately $136,000 in a joint venture in Hangzhou, China, and capital expenditures. Cash provided by investing activities during fiscal year 2008 consisted primarily of net sales of marketable securities and proceeds from the disposal of Spark stock, partially offset by the investment in Symbio and capital expenditures.

Our financing activities resulted in net cash inflows of $2,000 and $149,000 in fiscal years 2009 and 2008, respectively. Cash provided by financing activities during fiscal year 2009 was attributable to proceeds from the employee stock purchase plan. Cash provided by financing activities during fiscal year 2008 was attributable to proceeds from the employee stock purchase plan and proceeds from a note payable.

We believe that our available funds will satisfy our projected working capital and capital expenditure requirements for at least the next twelve months. To the extent future revenues are not realized or we grow more rapidly than expected, we may need additional cash to finance our operating activities and capital expenditures. Should we need financing, there can be no assurances that financing will be available to us on economically 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.

*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.

On February 23, 2007, the Company's newly formed subsidiary, eOn IP Voice, Inc. purchased certain accounts receivable, inventory and fixed assets and assumed certain liabilities of One IP Voice, Inc for $150,000 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.

In 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.

The Company has incurred substantial net operating losses since inception and negative cash flows from operating activities through July 31, 2009 resulting in an accumulated deficit of $48,856,000. The Company recorded a net loss of $339,000 in fiscal year 2009. As of July 31, 2009, the Company had $3,010,000 in cash and cash equivalents available to fund operations, of which $83,000 was held in international bank accounts.

The Company is largely dependent on available cash and operating cash flow to finance operations and meet its other capital needs. Cortelco has a line of credit based on an asset formula involving accounts receivable and inventory up to a maximum of $2,500,000, none of which was drawn on as of July 31, 2009. The line of credit is secured by substantially all of Cortelco's assets. The loan's interest rate is floating based on LIBOR and expires June 29, 2010. If such sources are not sufficient, alternative funding sources may not be available. The Company believes that cash on hand, short-term marketable securities, and the Cortelco line of credit 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*

The Company believes that the cash, short-term marketable securities on hand, and Cortelco's line of credit 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 the Company could be in a position that would require the Company to raise additional capital, which may not be available to the Company or may not be available on acceptable terms.

## NET LOSS

Net loss decreased to $339,000 in fiscal year 2009 compared to a net loss of $3,452,000 in fiscal year 2008 due to the acquisition of Cortelco and reduction in expenses explained above.

Reported net loss has been materially impacted by the imputed interest expense due to the amortization of the difference between the face value of the contingent obligation to the former Cortelco shareholders and the discounted present value of the note payable recorded on the balance sheet. The table below presents a non-GAAP financial disclosure to provide a quantitative analysis of the impact of the imputed interest expense on reported net loss and loss per share. Management does not include this expense in its analysis of financial results or how resources are allocated. Because of this, we deemed it meaningful to provide this non-GAAP disclosure of the impact of this significant item on our financial results.

**Non-GAAP Financial Disclosure**
(In thousands, except per share amounts)

| | Year Ended July 31, 2009 |
|---|---|
| Net loss reported | $ (339) |
| Interest imputed | 480 |
| Net income less imputed interest | $ 141 |
| Net loss per common share as reported | $ (0.12) |
| Interest imputed | 0.18 |
| Net income per common share less imputed interest | $ 0.05 |
| Weighted average common shares outstanding | 2,735 |

## COMMITMENTS AND CONTINGENCIES

*Contractual Obligations*

The Company is obligated to make future payments under various contracts it has entered into, including amounts pursuant to non-cancelable operating lease agreements for office and warehouse space and inventory purchase obligations. Expected future minimum contractual cash obligations for the next five years and in the aggregate at July 31, 2009 are as follows (in thousands):

| | Payments Due by Period for the Years Ending July 31, | | | | | | |
|---|---|---|---|---|---|---|---|
| | Total | 2010 | 2011 | 2012 | 2013 | 2014 | Thereafter |
| Notes payable (1) | $5,048 | $1,157 | $609 | $511 | $427 | $379 | $1,965 |
| Operating leases (2) | 396 | 247 | 114 | 35 | — | — | — |
| Purchase obligations (3) | 1,832 | 1,832 | — | — | — | — | — |
| Total | $7,276 | $3,236 | $723 | $546 | $427 | $379 | $1,965 |

(1) Actual payments under the note payable to Cortelco's shareholders ("Cortelco Note"), which are to be based on future earnings of Cortelco, may differ significantly from the projected payments estimated at the Cortelco Note's inception. These differences may result in significant fluctuations in periodic interest expense in order to properly reflect interest expense over the actual life of the Cortelco Note.
(2) Non-cancelable operating leases do not include payments due under renewals to the original lease term.
(3) Outstanding commitments for purchases of inventory under open purchase orders.

On August 10, 2009, the Company's lease was cancelled and the Company entered into a new sublease agreement reducing the leased square footage to 2,002 sq. ft. of office space in Kennesaw, Georgia. The sublease has a term of three years and provided for rent expense of approximately $2,500 per month.

The Company leases approximately 3,780 square feet of office space in San Jose, California. This joint lease with Spark Technologies has monthly rent of approximately $3,700 and expires December 31, 2010.

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, Cellstick™, is a small device that allows users to backup, enter, edit and transfer their cell phone contacts. 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 had the option to purchase all remaining outstanding Spark Common Stock, including options, by issuing 8,665,000 (or 1,733,000 after the 1:5 reverse stock split of the Company's stock in April 2008) shares of the Company's Common Stock. In March 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 provided that in the event the Company does not exercise this option, the Company could 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.

Cortelco has a line of credit based on an asset formula involving accounts receivable and inventory up to a maximum of $2,500,000, none of which was drawn on as of July 31, 2009. The line of credit is secured by substantially all of Cortelco's assets. The loan's interest rate is floating based on LIBOR and expires June 29, 2010.

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.

## SUBSEQUENT EVENT

The Company has evaluated events through October 29, 2009 for consideration as a subsequent event to be included in its July 31, 2009 financial statements issued October 29, 2009.

## RECENT ACCOUNTING PRONOUNCEMENTS

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 2008, the FASB issued FASB Staff Position ("FSP") SFAS 141(R)-1, "*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*", which amends the accounting in SFAS 141(R) for assets and liabilities arising from contingencies in a business combination. The FSP requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined.

If fair value cannot be reasonably determined, the proposed FSP requires measurement based on the best estimate in accordance with SFAS 5, "*Accounting for Contingencies*". The FSP is effective for fiscal years beginning after December 15, 2008. The Company expects FSP SFAS 141(R)-1 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 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.

In October 2008, the FASB issued EITF No. 08-6, "*Equity Method Investment Accounting Considerations*" *("EITF 08-6")*, which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company is evaluating the potential impact of this EITF on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board ("APB") 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP 107-1"), which will require that the fair value disclosures required for all financial instruments within the scope of SFAS 107, Disclosures about Fair Value of Financial Instruments, be included in interim financial statements. This FSP also requires entities to disclose the method and significant assumptions used to estimate the fair value of financial instruments on an interim and annual basis and to highlight any changes from prior periods. FSP 107-1 will be effective for interim periods ending after June 15, 2009. The adoption of FSP 107-1 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165), which updates previous guidance under GAAP by replacing "type 1" and "type 2" with "recognized" and "unrecognized," and requires disclosure in financial statements of the date through which subsequent events have been evaluated. SFAS No. 165 is effective for interim and annual periods after June 15, 2009 and was adopted by the Company beginning in the fourth quarter of its fiscal year 2009. The adoption of SFAS No. 165 did not have a material impact on the Company's consolidated results of operation and financial condition.

In June 2009, the FASB approved its *Accounting Standards Codification* or Codification as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, in the first quarter of fiscal year 2010, all references made to US GAAP will use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on the Company's consolidated financial statements.

## ITEM 8. FINANCIAL STATEMENTS.

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors

eOn Communications Corporation

We have audited the accompanying consolidated balance sheets of eOn Communications Corporation and subsidiaries as of July 31, 2009 and 2008 and the related consolidated statements of operations, cash flows and stockholders' equity and comprehensive income, for each of the two years in the period ended July 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of eOn Communications Corporation and subsidiaries as of July 31, 2009 and 2008, and the results of their operations and their cash flows for each of the two years in the period ended July 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

/s/ GHP Horwath, P.C.

Denver, Colorado

October 29, 2009

**EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**(In thousands, except share amounts)**

| | As of July 31, | |
|---|---|---|
| | **2009** | **2008** |
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 3,010 | $ 1,545 |
| Marketable securities | — | 1,000 |
| Trade accounts receivable, net of allowance of $332 and $680, respectively | 2,943 | 932 |
| Trade accounts receivable—related party | 228 | 84 |
| Inventories | 5,032 | 2,501 |
| Deferred income taxes | 270 | — |
| Prepaid and other current assets | 242 | 177 |
| Total current assets | 11,725 | 6,239 |
| Property and equipment, net | 209 | 176 |
| Intangibles, net | 410 | 251 |
| Investments | 1,136 | 900 |
| Investment in unconsolidated equity investee | 140 | — |
| Other non-current assets | — | 88 |
| Total assets | $ 13,620 | $ 7,654 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Trade accounts payable | $ 1,127 | $ 214 |
| Trade accounts payable—related party | 11 | 126 |
| Notes payable, related party | 1,157 | 138 |
| Accrued expenses and other | 1,628 | 1,145 |
| Total current liabilities | 3,923 | 1,623 |
| Note payable, related party, net of current portion | 3,891 | — |
| Total liabilities | 7,814 | 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, 2,873,992 and 2,869,608 shares issued, respectively) | 14 | 14 |
| Additional paid-in capital | 56,048 | 55,931 |
| Treasury stock, at cost (139,580 shares) | (1,503) | (1,502) |
| Accumulated deficit | (48,856) | (48,517) |
| Accumulated other comprehensive income | 103 | 105 |
| Total stockholders' equity | 5,806 | 6,031 |
| Total liabilities and stockholders' equity | $ 13,620 | $ 7,654 |

See accompanying notes to the consolidated financial statements.

**EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
**(In thousands, except per share amounts)**

| | For the Years Ended July 31, 2009 | 2008 |
|---|---|---|
| **REVENUE** | | |
| Third party revenue | $10,355 | $ 6,646 |
| Related party revenue | 290 | 348 |
| Net revenue | 10,645 | 6,994 |
| **COST OF REVENUE** | | |
| Third party cost of revenue | 5,659 | 2,832 |
| Related party cost of revenue | 204 | 323 |
| Cost of revenue | 5,863 | 3,155 |
| Gross profit | 4,782 | 3,839 |
| **OPERATING EXPENSE** | | |
| Selling, general and administrative (including $243 and $210 of related party management fees, respectively) | 3,633 | 3,893 |
| Research and development | 926 | 2,641 |
| Other expense, net | 120 | 283 |
| Total operating expense | 4,679 | 6,817 |
| Income (loss) from continuing operations | 103 | (2,978) |
| Interest (expense) income | (466) | 117 |
| Equity earnings of unconsolidated equity investee | 29 | — |
| Loss from continuing operations before income taxes | (334) | (2,861) |
| Income tax expense | (5) | — |
| Loss from continuing operations after income taxes | (339) | (2,861) |
| **DISCONTINUED OPERATIONS** | | |
| Loss from discontinued operations | — | (604) |
| Gain on disposal of discontinued operations, net of tax of $0 | — | 13 |
| Loss from discontinued operations | — | (591) |
| Net loss | $ (339) | $(3,452) |
| Weighted average shares outstanding | | |
| Basic and diluted | 2,735 | 2,725 |
| Basic and diluted loss per share: | | |
| From continuing operations | $ (0.12) | $ (1.05) |
| From discontinued operations, net of tax | — | (0.22) |
| Basic and diluted net loss per share | $ (0.12) | $ (1.27) |

See accompanying notes to the consolidated financial statements.

## EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF CASH FLOWS
## (Dollars in thousands)

| | For the Years Ended July 31, 2009 | 2008 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Net loss | $ (339) | $(3,452) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Change in operating assets and liabilities of discontinued operations | — | 161 |
| Gain on disposal of discontinued operations | — | (13) |
| Stock based compensation expense | 25 | 151 |
| Depreciation and amortization | 180 | 223 |
| Allowance for doubtful accounts | 55 | 14 |
| Loss on disposal of fixed assets | 39 | 106 |
| Imputed interest on note payable | 480 | — |
| Equity earnings in unconsolidated investee | (29) | — |
| Changes in net assets and liabilities, net of effects of business acquisition | | |
| Trade accounts receivable | (488) | 835 |
| Inventories | 881 | (153) |
| Prepaid and other current assets | 232 | (147) |
| Trade accounts payable | 329 | (218) |
| Trade accounts receivable/payable—related party | (259) | (178) |
| Accrued expenses and other | 150 | (60) |
| Net cash provided by (used in) operating activities | 1,256 | (2,731) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchases of property and equipment | (12) | (114) |
| Capitalized software development costs | (243) | — |
| Purchase of investments | (194) | (900) |
| Sale of investments | 58 | — |
| Proceeds from disposal of Spark stock | — | 300 |
| Sales of marketable securities | 1,000 | 2,400 |
| Net cash used in business acquisition | (400) | — |
| Proceeds from disposal of discontinued operations | — | 90 |
| Net cash provided by investing activities | 209 | 1,776 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Proceeds from note payable | — | 138 |
| Proceeds from employee stock purchase plan | 2 | 11 |
| Net cash provided by financing activities | 2 | 149 |
| Effect of exchange rate changes on cash | (2) | 95 |
| Net increase (decrease) in cash and cash equivalents | 1,465 | (711) |
| Cash and cash equivalents, beginning of period | 1,545 | 2,256 |
| Cash and cash equivalents, end of period | $3,010 | $ 1,545 |
| Supplemental cash flow information: | | |
| Interest paid | $ — | $ — |
| Income taxes paid | $ 5 | $ — |
| Supplemental disclosure of non-cash investing activity: | | |
| Net assets acquired in merger with Cortelco Systems Holding Corp., excluding cash (see Note 3) | $4,954 | |

See accompanying notes to the consolidated financial statements.

## EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME
### (In thousands except share amounts)

| | Common Stock | | Additional Paid-In | Treasury Stock | | Accumulated | Accumulated Other Comprehensive | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Shares | Amount | Deficit | Income | Equity |
| Balance at August 1, 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, stock grants | 16,100 | — | 35 | — | — | — | — | 35 |
| Stock based compensation expense, stock options and ESPP | | — | 116 | — | — | — | — | 116 |
| Comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustments | | | | | | | 105 | 105 |
| Net loss | — | — | — | — | — | (3,452) | — | (3,452) |
| Comprehensive loss | — | — | — | — | — | | — | (3,347) |
| 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 | 4,384 | — | 2 | — | — | — | — | 2 |
| Stock based compensation expense, stock options and ESPP | | | 25 | | | | | 25 |
| Capital contribution by David Lee | | | 90 | | | | | 90 |
| Treasury stock acquired in merger | | | | (4,200) | (1) | | | (1) |
| Comprehensive income (loss): | | | | | | | | |
| Foreign currency translation adjustments | | | | | | | (2) | (2) |
| Net loss | — | — | — | — | — | (339) | — | (339) |
| Comprehensive loss | — | — | — | — | — | | — | (341) |
| Balance at July 31, 2009 | 2,873,992 | $ 14 | $56,048 | (139,580) | $(1,503) | $(48,856) | $103 | $ 5,806 |

See accompanying notes to the consolidated financial statements.

**EON COMMUNICATIONS CORPORATION AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**Years Ended July 31, 2009 and 2008**

## 1. Description of Business

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 customers to leverage advanced technologies in order to communicate more effectively. eOn's offerings are built on open architectures that enable adoption of emerging technologies, such as Voice over Internet Protocol (VoIP) and concepts, such as Service Oriented Architectures (SOA). Whether businesses are looking to leverage the advantages of enterprise IP telephony or advanced contact center technologies, eOn Communications delivers, IP-ready products to improve business performance.

## 2. Summary of Significant Accounting Policies

(a) Principles of Consolidation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America, and include the accounts of eOn Communications Corporation, eOn Communications (Beijing) Corporation Limited ("eOn China") formed on June 20, 2006, Cortelco China Corporation, eOn IP Voice, Inc. ("EIPV"), and Cortelco Systems Holding Corp. ("Cortelco") acquired on April 1, 2009. All significant inter-company accounts and transactions have been eliminated in consolidation.

(b) Cash and Cash Equivalents

All highly liquid investments with a maturity date of three months or less when purchased are considered to be cash equivalents. At July 31, 2009 there was approximately $83,000 held in foreign bank accounts.

(c) Marketable Securities

Marketable securities are classified as available for sale and are reported at fair value. Unrealized holding gains and losses, if any, net of the related income tax effect, are excluded from income and are reported in other comprehensive income. Realized gains and losses are included in income on the specific identification method.

(d) Accounts Receivable

Accounts receivable are stated net of allowances for doubtful accounts. The Company typically grants standard credit terms to customers in good credit standing. As a result, the Company must estimate the portion of accounts receivable that are uncollectible and record any necessary valuation reserves. The Company generally reserves for estimated uncollectible accounts on a customer-by-customer basis, which requires judgment about each individual customer's ability and intention to fully pay account balances. The Company makes these judgments based on knowledge of and relationships with customers and current economic trends, and updates estimates on a monthly basis. Any changes in estimate, which can be significant, are included in earnings in the period in which the change in estimate occurs.

(e) Inventories

Inventories consist of phones, systems, system cards and component parts for final assembly of our systems and are valued at the lower of cost or market with cost determined utilizing standard cost which approximates the first-in, first-out ("FIFO") method. The Company performs an analysis of slow-moving or obsolete inventory on a quarterly basis and any necessary valuation reserves, which could potentially be significant, are included in earnings in the period in which the evaluations are completed.

(f) Property and Equipment

Property and equipment are stated at cost. Depreciation is provided using the straight-line method for financial reporting purposes and accelerated methods for income tax reporting purposes over the estimated useful lives of the assets, generally three to five years. Maintenance and repair costs are charged to expense as incurred.

(g) Intangible Assets

Intangibles represent process technology acquired from Aelix Systems Inc. (Aelix) and software development costs. Aelix was the Company's 100% owned subsidiary, which was closed effective April 1, 2008. The Company recorded amortization of $84,000 in each of the last two fiscal years, and expects to record approximately $84,000 of amortization in each of the next two years.

The Company accounts for costs related to software developed for external use in accordance with SFAS No. 86, "*Accounting for the Costs of Computer Software to Be Sold, Leased, or Otherwise Marketed*". As required by SFAS No. 86, the Company capitalizes costs in developing software products upon determination that technological feasibility has been established for the product, if that product is to be sold, leased or otherwise marketed. Costs incurred prior to the establishment of technological feasibility are charged to research and development expense. When the product or enhancement is available for general release to customers, capitalization is ceased, and previously capitalized costs are amortized based on current and anticipated future revenues for the product, but with an annual amortization amount at least equal to the straight-line amortization over an estimated economic life of five years. The Company's unamortized software cost at July 31, 2009 was approximately $243,000. The software is under development and is expected to be available for general release to customers in the second fiscal quarter of 2010, at which time the Company will begin amortizing it.

In accordance with Financial Accounting Standards ("SFAS") No. 144, "*Accounting for the Impairment or Disposal of Long-lived Assets*," management of the Company evaluates the carrying value of the process technology annually or when a possible impairment is indicated. Based on its evaluation, management believes that no impairment has occurred as of July 31, 2009.

(h) Stock Compensation Plans

The Company accounts for stock-based compensation under SFAS No. 123R ("SFAS 123R"), *Share Based Payments*. SFAS 123R requires the measurement and recognition of compensation expense for all share-based payment awards based on estimated fair values. For share-based payments to non-employees, the Company also considers the provisions of Emerging Issues Task Force ("EITF") Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling Goods or Services*.

On November 10, 2005, the Financial Accounting Standards Board ("FASB") issued FASB Staff Position No. 123R-3, *Transition Election related to Accounting for Tax Effects of Share-Based Payment Awards* ("FSP 123R-3"). The Company has elected to adopt the alternative transition method provided in the FSP 123R-3 for calculating the tax effects of share-based compensation pursuant to SFAS 123R. The alternative transition method includes simplified methods to establish the beginning balance of the additional paid-in capital pool ("APIC Pool") related to the tax and consolidated statements of cash flows presentation of the tax effects of employee and director share-based awards that are outstanding upon adoption of SFAS 123R.

(i) Product Warranties

The Company generally provides customers a one year product warranty from the date of purchase for the Millennium and eQueue product lines. Warranty for the Cortelco product line ranges from one to five years based upon the product purchased. The Company estimates the costs of satisfying warranty claims based on analysis of past claims experience and provides for these future claims in the period that revenue is recognized. The cost of satisfying warranty claims, which approximates 0.6% - 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.

(j) Income Taxes

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. A valuation allowance is provided for deferred tax assets when management is unable to conclude that it is more likely than not that the asset will be realized.

On August 1, 2007, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement 109* ("FIN 48"). Based on management's evaluation, the Company did not have any unrecognized tax benefits, and there was no effect on the Company's opening equity, current operations or cash flows, or its net operating loss carryforwards and related deferred tax valuation allowance as a result of implementing FIN 48. The Company will recognize any tax-related interest and penalties as a component of income tax expense.

(k) Revenue Recognition

The Company's revenues from its four 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 | | |
| Cortelco Products | 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 the 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.

Cortelco sells corded and cordless analog and digital telephones capable of operating in the multiple PBX, Key System and Centrex environments primarily through stocking distributors.

The Company records shipping and handling fees billed to customers as revenue, and shipping and handling costs incurred with the delivery of products as cost of sales.

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. 104, "*Revenue Recognition*," and Statement of Position No. 97-2, "*Software Revenue Recognition*."

(l) Earnings Per Share

The Company follows SFAS No. 128, "*Earnings Per Share,*" which requires disclosure of basic and diluted earnings per share ("EPS"). Basic EPS is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the year. Diluted EPS is similar to basic EPS except that the weighted average number of common shares outstanding is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares, such as options, had been issued. Basic weighted average shares outstanding were 2,735,251 and 2,725,280, for the years ended July 31, 2009 and 2008, respectively. During fiscal years ended July 31, 2009 and 2008, potentially dilutive shares were excluded from the computation of dilutive loss per share because the Company has a net loss from operations for the periods and their effect would have been anti-dilutive.

(m) Fair Value of Financial Instruments

The carrying amounts of financial instruments such as cash, accounts receivable, and accounts payable approximate their fair value due to the short term nature of the instruments. The fair value of related party accounts receivable, related party accounts payable, and related party notes payable are not practical to estimate due to the related party nature of the underlying transactions.

In September 2006, the FASB issued FASB Statement No. 157, "*Fair Value Measurements*" ("SFAS No. 157"). SFAS No. 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 SFAS No. 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 No. 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 consolidated financial statements.

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 marketable securities, consisting primarily of money market securities and U.S. Treasury 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.

The note payable to the former Cortelco shareholders (See Note 3) is valued using a discounted cash flow analysis of the projected future payments of Cortelco using a discount rate of 15.22%. The note is classified within Level 3 of the fair value hierarchy.

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 and did not have a material impact on the Company's consolidated financial statements.

(n) 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.

(o) Comprehensive Income

SFAS 130, "*Reporting Comprehensive Income*," establishes standards for reporting and display of comprehensive income and its components and requires a separate statement to report the components of comprehensive income for each period reported. For the fiscal year ended July 31, 2009, comprehensive income consists of foreign currency translation adjustments. The functional currency of the Company's China operations is the Renminbi Yuan. The financial statements of the operations were translated into United States dollars using year end rates of exchange for the assets and liabilities and average rates of exchange during the year for revenues, costs and expenses. Translation gains and losses were treated as a component of stockholders equity. Foreign currency transaction gains and losses are included in determining net (loss) income.

(p) Research and Development Costs

The Company allocates expenses to research and development costs based on headcount that is dedicated to research and development activities.

(q) Advertising Expense

The Company expenses advertising expenses as incurred. Advertising expenses for fiscal years 2009 and 2008 were not significant.

(r) Segment Reporting

The Company follows SFAS No. 131, "*Disclosures about Segments of an Enterprise and Related Information*" and operates in two business segments: Communications Systems and Services, and Telephony Products. Segment information is consistent with how management reviews its businesses, makes investing and resource allocation decisions and assesses operating performance.

(s) Recently Issued 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 2008, the FASB issued FASB Staff Position ("FSP") SFAS 141(R)-1, "*Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies*", which amends the accounting in SFAS 141(R) for assets and liabilities arising from contingencies in a business combination. The FSP requires that pre-acquisition contingencies be recognized at fair value, if fair value can be reasonably determined.

If fair value cannot be reasonably determined, the proposed FSP requires measurement based on the best estimate in accordance with SFAS 5, "*Accounting for Contingencies*". The FSP is effective for fiscal years beginning after December 15, 2008. The Company expects FSP SFAS 141(R)-1 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 fiscal years beginning on or after December 15, 2008. The Company does not expect SFAS No. 160 to have a significant impact 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.

In October 2008, the FASB issued EITF No. 08-6, "*Equity Method Investment Accounting Considerations*" *("EITF 08-6")*, which clarifies the accounting for certain transactions and impairment considerations involving equity method investments. EITF 08-6 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. The Company is evaluating the potential impact of this EITF on its consolidated financial statements.

In April 2009, the FASB issued FSP SFAS 107-1 and Accounting Principles Board ("APB") 28-1, *Interim Disclosures about Fair Value of Financial Instruments* ("FSP FAS 107-1"), which will require that the fair value disclosures required for all financial instruments within the scope of SFAS No. 107, *Disclosures about Fair Value of Financial Instruments*, be included in interim financial statements. This FSP also requires entities to disclose the method and significant assumptions used to estimate the fair value of financial instruments on an interim and annual basis and to highlight any changes from prior periods. FSP FAS 107-1 will be effective for interim periods ending after June 15, 2009. The adoption of FSP FAS 107-1 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* (SFAS No. 165), which updates previous guidance under GAAP and requires disclosure in financial statements of the date through which subsequent events have been evaluated. SFAS No. 165 is effective for interim and annual periods after June 15, 2009 and was adopted by the Company beginning in the fourth quarter of its fiscal year 2009. The adoption of SFAS No. 165 did not have a material impact on the Company's consolidated results of operation and financial condition.

In June 2009, the FASB approved its Accounting Standards Codification or Codification as the single source of authoritative United States accounting and reporting standards applicable for all non-governmental entities, with the exception of the SEC and its staff. The Codification, which changes the referencing of financial standards, is effective for interim or annual financial periods ending after September 15, 2009. Therefore, in the first quarter of fiscal year 2010, all references made to US GAAP will use the new Codification numbering system prescribed by the FASB. As the Codification is not intended to change or alter existing US GAAP, it is not expected to have any impact on the Company's consolidated financial statements.

## 3. Acquisition of Cortelco Systems Holding Corp.

On April 1, 2009, the Company acquired Cortelco for up to $11,000,000 in cash. Cortelco merged with a newly formed wholly-owned subsidiary of eOn and is now a wholly-owned subsidiary of eOn. In exchange for all of the outstanding shares of Cortelco stock, Cortelco shareholders received an initial aggregate payment of $500,000. The Company executed a note payable to Cortelco's former shareholders for $10,500,000 (the "Cortelco Note"). The Cortelco Note is non-interest bearing and is to be repaid based primarily upon the level of Cortelco earnings after closing and all Cortelco shareholders are eligible to receive quarterly payments thereunder in cash until the full consideration has been paid. The fair value of the Cortelco Note payable obligation assumed on the April 1, 2009 acquisition date was estimated using a discounted cash flow method (Level 3 input of the FASB No. 157 hierarchy), and together with approximately $124,000 in acquisition costs, resulted in a total purchase price of $5,054,000. David Lee, Chairman of eOn, was the Chairman and the controlling shareholder of Cortelco at the date of acquisition.

The following represents the purchase price allocation at the date of the Cortelco acquisition (in thousands):

| | |
|---|---|
| Cash | $ 100 |
| Accounts receivable | 1,578 |
| Inventories | 3,412 |
| Deferred income taxes, current | 212 |
| Other current assets | 333 |
| Property and equipment | 157 |
| Deferred income taxes, long-term | 58 |
| Other assets | 121 |
| Current liabilities | (917) |
| Net assets acquired | $5,054 |

The following unaudited pro forma financial information gives effect to the acquisition as if it had been consummated at the beginning of the periods presented. This information is not necessarily indicative of the operational results that would have occurred if the acquisition had been consummated on the dates indicated nor is it necessarily indicative of the future consolidated results of operations or financial condition.

| | Year Ended July 31, | |
|---|---|---|
| | 2009 | 2008 |
| Revenue | $19,042 | $22,211 |
| Loss from continuing operations | $ (72) | $ (2,826) |
| Loss from discontinued operations | — | (591) |
| Net loss | $ (72) | $ (3,417) |
| Basic and diluted pro forma loss per share: | | |
| From continuing operations | $ (0.03) | $ (1.03) |
| From discontinued operations, net of tax | * | (0.22) |
| Basic and diluted pro forma loss per share | $ (0.03) | $ (1.25) |

* Less than $0.01

## 4. Discontinued Operations

In February 2007, the Company's newly formed 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. During the quarter ended April 30, 2008, the Company sold the assets of EIPV for approximately $90,000. Accordingly, EIPV has been reported as discontinued operations for the year ended July 31, 2008.

## 5. Concentrations of Credit Risk, Major Customers, Major Suppliers and Geographic Information

Financial instruments, which potentially subject the Company to a concentration of credit risk, consist principally of cash and trade accounts receivable. The Company maintains its cash balances with large regional U.S. and foreign financial institutions and has not experienced losses. The Company's products are sold principally to dealers, distributors, value added resellers, national accounts, the U.S. government and foreign telecommunications companies. The Company's credit risk is limited principally to trade accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. No additional risk beyond amounts provided for collection losses is believed inherent in the Company's trade accounts receivable.

During fiscal years 2009 and 2008, the Company recognized revenue from the federal government of $1,638,000, or 15% of total revenue and $1,387,000, or 20% of total revenue, respectively. Revenue from four distributors arising from the acquisition of Cortelco for the period from April 1, 2009 through July 31, 2009 was $2,937,000 or 28% of revenue. Revenue from one of these distributors was $1,525,000 or 14% of total revenue for the year ended July 31, 2009. As of July 31, 2009 and 2008, the Company had receivables from the federal government of $600,000 and $223,000, respectively. As of July 31, 2009, the Company had receivables from four major distributors of $1,428,000. Two of these distributors accounted for 15% each of trade accounts receivable at July 31, 2009.

The Company purchases approximately 82% of its Millennium phones, systems and system cards from one contract manufacturer. Although the Company utilizes another contract manufacturer, a change in suppliers could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results. During fiscal years 2009 and 2008, purchases from this vendor totaled approximately $514,000 and $972,000, respectively. As of July 31, 2009 and 2008, the balances payable to this contract manufacturer were $50,000 and $90,000, respectively.

The Company purchases approximately 61% of its Cortelco phones from two major suppliers. A change in suppliers could cause a delay in manufacturing and a possible loss of sales, which could adversely affect operating results. During fiscal year 2009, subsequent to the Company's acquisition of Cortelco on April 1, 2009, purchases from these two suppliers totaled approximately $1,534,000. As of July 31, 2009, the balances payable to these two suppliers were $747,000.

## 6. Marketable Securities

At July 31, 2008, marketable securities consisted of taxable auction rate securities (ARS), with stated maturities ranging from 24-40 years. In the third fiscal quarter of 2008, because there was insufficient observable

ARS market information, a temporary impairment of $75,000 was recorded against the securities' carrying value. The securities were liquidated in October 2008 at their par value of $1,000,000, and accordingly, the temporary impairment was reversed in the fourth fiscal quarter of 2008.

## 7. Inventories

Inventories consist of the following as of July 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Raw materials and purchased components | $ 1,626 | $ 961 |
| Finished goods | 5,098 | 2,759 |
| Total | 6,724 | 3,720 |
| Inventory obsolescence reserve | (1,692) | (1,219) |
| Inventory | $ 5,032 | $ 2,501 |

## 8. Prepaid and Other Current Assets

Prepaid and other current assets consist of the following as of July 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Refundable facility deposits | $ 24 | $ 57 |
| Prepaid expenses | 216 | 103 |
| Other | 2 | 17 |
| Total | $242 | $177 |

## 9. Property and Equipment

Property and equipment consist of the following as of July 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Leasehold improvements | $ 317 | $ 350 |
| Equipment | 1,713 | 1,572 |
| Furniture and fixtures | 345 | 375 |
| Total | 2,375 | 2,297 |
| Less: accumulated depreciation | (2,166) | (2,121) |
| Property and equipment, net | $ 209 | $ 176 |

## 10. Accrued Expenses and Other

Accrued expenses and other consist of the following as of July 31, 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Employee compensation | $ 131 | $ 288 |
| Vacation | 104 | 38 |
| Deferred income | 348 | 338 |
| Warranty reserve | 196 | 82 |
| Professional fees | 246 | 207 |
| Other | 603 | 192 |
| Total | $1,628 | $1,145 |

FASB Interpretation No. 45, "*Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*" ("FIN 45"), requires that upon issuance of a guarantee, the guarantor must disclose and recognize a liability for the fair value of the obligation it assumes under that guarantee.

The requirements of FIN 45 are applicable to the Company's product warranty liability. As of July 31, 2009 and 2008, the Company's product warranty liability recorded in other accrued liabilities was $196,000 and $82,000, respectively. The following table summarizes the activity related to the product warranty liability during fiscal years 2009 and 2008 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Balance at beginning of period | $ 82 | $133 |
| Warranty accrual acquired in Cortelco transaction | 120 | |
| Accruals for warranty liability | 42 | (4) |
| Warranty expense | (48) | (47) |
| Balance at end of period | $196 | $ 82 |

## 11. Notes Payable, Related Party

On June 20, 2008, eOn China issued a note to Hangzhou Nature Opto Company in exchange for RMB 945,000, or approximately $138,000. The note payable is non-interest bearing and was due January 19, 2009. The board of directors has approved the sale of eOn's interest in Smbio-ES Park Business Outsourcing Joint Venture to Symbio in return for Symbio's assumption of the note payable to Hangzhou Nature Opto Company. (See Note 14.)

Cortelco has a line of credit based on an asset formula involving accounts receivable and inventory up to a maximum of $2,500,000, none of which was drawn on as of July 31, 2009. The line of credit is secured by substantially all of Cortelco's assets. The loan's interest rate (4% at July 31, 2009) is floating based on LIBOR and expires June 29, 2010.

The fair value of the Cortelco Note payable obligation was valued at approximately $4,430,000 at the April 1, 2009 Cortelco acquisition date using a discounted cash flow analysis of the projected future payments and a discount rate of 15.22%. The $4,910,000 Cortelco Note balance at July 31, 2009 includes $480,000 of interest expense during the year ended July 31, 2009 imputed at the 15.22% discount rate using the effective interest method.

Actual payments under the Cortelco Note, which are to be based on future earnings of Cortelco, may differ significantly from the projected payments estimated at the Cortelco Note's inception. These differences may result in significant fluctuations in periodic interest expense in order to properly reflect interest expense over the actual life of the Cortelco Note.

## 12. Income Taxes

No income tax benefit from continuing operations was recorded for the year ended July 31, 2009 and 2008 as management was unable to conclude that it was more likely than not that the income tax benefit would be realized.

No provision has been made for income taxes which may become payable upon distribution of foreign subsidiary's earnings since management considers essentially all of these earnings to be permanently invested. Determination of the net amount of unrecognized U.S. income tax with respect to these earnings is not practicable.

A reconciliation between the income tax expense recognized in the Company's consolidated statement of operations and the income tax benefit computed by applying the domestic federal statutory income tax rate to (loss) income before income taxes for fiscal years 2009 and 2008 is as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Income tax benefit at federal statutory rate (35%) | $(117) | $(1,208) |
| State income taxes | (20) | (207) |
| Benefit of net operating loss carry-forwards | — | — |
| Change in valuation allowance | 292 | 1,274 |
| Other, net | (150) | 141 |
| Total income tax expense | $ 5 | $ — |

The deferred tax effects of the Company's principal temporary differences at July 31, 2009 and 2008 are as follows (in thousands):

| | 2009 | 2008 |
|---|---|---|
| Allowance for doubtful receivables | $ 129 | $ 273 |
| Inventories | 708 | 519 |
| Basis difference in property and equipment | (1) | (11) |
| Intangible assets | (30) | — |
| Accrued warranty costs | 76 | 31 |
| Accrued expenses and other | (478) | 192 |
| Deferred revenue | 135 | 131 |
| Net operating loss carry-forwards | 9,882 | 8,724 |
| Valuation allowance | (10,151) | (9,859) |
| Total deferred tax asset | $ 270 | $ — |

Due to uncertainties surrounding the timing of realizing the benefits of its net favorable tax attributes in future tax returns; to the extent that it is more likely than not that deferred tax assets may not be realized, the Company has recorded a valuation allowance against its deferred tax assets at July 31, 2009 and 2008.

At July 31, 2009, the Company has federal and state net operating loss carry-forwards of approximately $25,000,000 which expire on various dates through 2028.

## 13. Stock-Based Compensation

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

*Equity Incentive Plans*

No grants were made under the 1997 Equity Incentive Plan during fiscal years 2009 and 2008. The Board of Directors has declared that no future grants will be made under this plan.

During fiscal year 1999, the Board of Directors authorized up to an aggregate of 400,000 shares of the Company's common stock for issuance under the 1999 Equity Incentive Plan. During fiscal years 2008, 16,100 fully vested shares of stock were granted to twenty-two non-executive employees at no cost to the employee and, on the grant date, had a fair market value of approximately $35,000.

During fiscal year 2001, the Board of Directors authorized up to an aggregate of 100,000 shares of the Company's common stock for issuance under the 2001 Equity Incentive Plan. Grants to officers or directors are prohibited under the terms of this plan. During fiscal year 2009, 2,500 options were issued under this plan with an exercise price of $.54 per share and a fair value of $.44, vesting in four years. During fiscal year 2008, no options were issued under this plan.

*Employee Stock Purchase Plan*

During 1999, the board of directors adopted an Employee Stock Purchase Plan, which permits employees to purchase up to 50,000 shares of the Company's common stock. The plan was amended in 2005 to increase the number of shares available under the plan to 200,000. The purchase price under this plan is 85% of the fair market value of the common stock at the beginning of an offering period or on a purchase date, whichever is less. Offering periods generally last one year with purchase dates six and twelve months from the beginning of an offering period. During fiscal years 2009 and 2008, employees purchased 4,384 and 3,879 shares of common stock respectively, under this plan. In September 2009, employees purchased 1,222 shares under this plan.

*Stock Compensation*

Under SFAS 123R, compensation cost is calculated on the date of grant using the fair value of the option as determined using the Black-Scholes option pricing model. The compensation cost is then amortized straight-line over the vesting period. The Black-Scholes valuation calculation requires the Company to estimate key assumptions such as expected term, volatility and forfeiture rates to determine the stock options fair value. The estimate of these key assumptions is based on historical information and judgment regarding market factors and trends.

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 assumptions used to value option grants and the Employee Stock Purchase Plan for the years ended July 31, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|---|---|
| Volatility | 69% - 114% | 107% |
| Expected term (in years) | 6.25 | 6.25 |
| Dividend yield | — | — |
| Risk free interest rate | .44% - 1.92% | 1.83% |

Total stock-based compensation recognized for the year ended July 31, 2009, related to stock options vested, stock grants and ESPP shares issued during the year ended July 31, 2009, is as follows (in thousands):

| Income Statement Classification | Option Grants | ESPP | Total |
|---|---|---|---|
| Selling, general and administrative | $ 22 | $ 3 | $ 25 |
| Research and development | — | — | — |
| Total | $ 22 | $ 3 | $ 25 |

As of July 31, 2009, the Company has total unrecognized compensation costs of $1,000 related to unvested stock options outstanding under the Plans. These costs are expected to be recognized over a weighted average period of 3.2 years ending during fiscal year 2013.

*General Stock Option Information*

Activity in the Company's stock option plans during fiscal years 2009 and 2008 is as follows:

| | 2009 | | |
|---|---|---|---|
| | Shares Available for Grant | Shares Outstanding | Weighted Average Exercise Price |
| Beginning of year | 181,871 | 210,096 | $17.30 |
| Granted | (2,500) | 2,500 | 0.54 |
| Exercised | — | — | — |
| Cancelled | 23,543 | (39,233) | 37.60 |
| End of year | 202,914 | 173,363 | $12.46 |

| | 2008 | | |
|---|---|---|---|
| | Shares Available for Grant | Shares Outstanding | Weighted Average Exercise Price |
| Beginning of year | 87,332 | 330,728 | $15.63 |
| Granted | (16,100) | — | — |
| Exercised | — | — | — |
| Cancelled | 110,639 | (120,632) | 12.72 |
| End of year | 181,871 | 210,096 | $17.30 |

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

| Range of Exercise Prices | Outstanding at July 31, 2009 | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Exercisable at July 31, 2009 | Weighted Average Exercise Price |
|---|---|---|---|---|---|
| $ 0.00 – $ 25.00 | 167,843 | 4.7 years | $ 10.74 | 165,309 | $ 10.89 |
| $25.01 – $ 50.00 | — | | — | — | — |
| $50.01 – $ 75.00 | 4,920 | .6 years | 57.98 | 4,920 | 57.98 |
| $75.01 – $125.00 | 600 | .6 years | 121.25 | 600 | 121.25 |
| | 173,363 | 4.6 years | $ 12.46 | 170,829 | $ 12.64 |

Activity in the Company's nonvested options during fiscal year 2009 is as follows:

| | Nonvested Shares | Weighted Average Exercise Price |
|---|---|---|
| Beginning Balance | 4,235 | $6.23 |
| Options granted | 2,500 | 0.54 |
| Options vested | (4,201) | 6.24 |
| Options cancelled | — | — |
| Ending Balance | 2,534 | $0.61 |

The aggregate intrinsic value of both options outstanding and options exercisable as of July 31, 2009 was $0. The aggregate intrinsic value of the 4,201 options which vested during the year ended July 31, 2009 was $0.

## 14. Related Parties

*Cortelco, Inc. and Cortelco Systems Holding Corp.*

Cortelco, Inc. is a subsidiary of Cortelco and a supplier of Millennium and eQueue peripheral hardware. On March 8, 2008, the Company and Cortelco entered into an outsourcing agreement whereby Cortelco provided management for all of eOn's U.S. operations. Included in the management services were sales, marketing, product management, engineering, technical support, quality assurance, accounting, and information technology. Charges incurred for products and services in fiscal year 2009 prior to the Company's acquisition of Cortelco on April 1, 2009 were approximately $535,000 and approximately $113,000 was included in the accounts payable balance at April 1, 2009. David Lee, the Company's Chairman, was the Chairman and a controlling shareholder of Cortelco.

*Cortelco Systems Puerto Rico*

Cortelco Systems Puerto Rico ("CSPR") was a wholly-owned subsidiary of the Company until July 31, 2002, 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 each of the fiscal years ended July 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| **Receivable from CSPR** | | |
| Balance at beginning of period | $— | $ 9 |
| Receivable acquired in merger | 6 | — |
| Purchases from CSPR | 9 | 7 |
| Payments to CSPR | (14) | (16) |
| Balance at end of period | $ 1 | $— |

The Company acquired 300,100 shares (or 18.89%) of CSPR stock as the result of the acquisition of Cortelco on April 1, 2009. These shares were valued at approximately $111,000 at April 1, 2009 based on the quoted market price of CSPR's shares at that date. Because David Lee, Chairman of eOn, is a significant shareholder of CSPR, eOn is accounting for this investment using the equity method of accounting, and eOn's proportionate share of CSPR's earnings or losses, are included in income in the consolidated financial statements. The Company's proportionate share of CSPR's net income was approximately $29,000 for the period from April 1, 2009 through July 31, 2009. Summarized financial information of CSPR as of July 31, 2009 and for the period from April 1, 2009 through July 31, 2009, is as follows (in thousands):

| | July 31, 2009 |
|---|---|
| Assets: | |
| Current Assets | $ 3,151 |
| Property and equipment | 63 |
| Other assets | 94 |
| Total assets | $ 3,308 |
| Liabilities and stockholders' equity: | |
| Current liabilities | $ 1,864 |
| Total liabilities | 1,864 |
| Stockholders' equity | 1,444 |
| Total liabilities and stockholders' equity | $ 3,308 |

| | Period from April 1, 2009 through July 31, 2009 |
|---|---|
| Revenues | $ 3,388 |
| Cost of revenues | (2,562) |
| Gross profit | 826 |
| Expenses | (675) |
| Net income | $ 151 |

*Spark Technologies, Inc.*

Aelix and eOn China performed engineering development projects for Spark Technologies, Inc ("Spark"), a California company that is majority owned by David Lee, the Chairman and major shareholder of eOn. 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. 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 ("Symbio"). eOn holds an equity interest in Symbio. The following represents related party transactions for each of the fiscal years ended July 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| **Receivable from Spark** | | |
| Balance at beginning of period | $— | $ 108 |
| Engineering development and costs | 3 | 370 |
| Payments received from Spark | — | (344) |
| Payables offset against accounts receivable | (3) | (134) |
| Balance at end of period | $— | $ — |

| | 2009 | 2008 |
|---|---|---|
| **Payable to Spark** | | |
| Balance at beginning of period | $— | $ 37 |
| Deposit received from Spark | — | — |
| Operating costs billed to eOn | 67 | 97 |
| Payments to Spark | (64) | — |
| Balance offset against receivable from Spark | (3) | (134) |
| Balance at end of period | $— | $ — |

*Symbio*

On August 1, 2007 and August 27, 2007, the Company made strategic investments in Symbio of $500,000 and $400,000 for 250,000 and 200,000 shares, respectively, or approximately 3% of Symbio. Symbio is a China-based provider of software development, testing, and globalization outsourcing services to multinational companies. The investment is expected to establish eOn as a 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 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 45,000 shares of Symbio as compensation for Mr. Lee's services. These shares have been valued at $90,000, and have been recorded as an increase in investments and a capital contribution by David Lee.

Symbio currently shares office space and personnel with eOn in China and is billed for expenses attributable to Symbio's business. Symbio has contracted to assist eOn in the United States with software development. The following represent related party transactions for each of the fiscal years ended July 31 (in thousands):

| | 2009 | 2008 |
|---|---|---|
| **Receivable from Symbio** | | |
| Balance at beginning of period | $ 84 | $— |
| Billings and accruals for operating expenses | 272 | 128 |
| Payments received from Symbio | (347) | (44) |
| Balance at end of period | $ 9 | $ 84 |

| | 2009 | 2008 |
|---|---|---|
| **Payable to Symbio** | | |
| Balance at beginning of period | $ — | $— |
| Billings and accruals for engineering services | 11 | — |
| Payments to Symbio | — | — |
| Balance at end of period | $ 11 | $— |

*Symbio-ES Park 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 (Note 11). The eOn Board of Directors has approved the sale of eOn's interest in the Joint Venture to Symbio in return for Symbio's assumption of the promissory note. The sale has not yet been completed.

The following represents related party transactions for the fiscal year ended July 31, 2009 (in thousands):

| | |
|---|---|
| **Receivable from Hangzhou** | |
| Balance at beginning of period | $— |
| Billings for product and services | 220 |
| Payments received from Hangzhou | (66) |
| Balance at end of period | $154 |

*Joint Venture*

On October 24, 2008, eOn China invested RMB 400,000 (approximately $58,000) into a joint venture in TaiCang, China. eOn China 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. The following represents related party transactions for the fiscal year ended July 31, 2009 (in thousands):

| | |
|---|---|
| **Receivable from TaiCang** | |
| Balance at beginning of period | $— |
| Billings for product and services | 135 |
| Payments received from TaiCang | (71) |
| Balance at end of period | $ 64 |

## 15. Employee Savings Plan

Substantially all U.S. employees of the Company can participate in the eOn Communications Corporation Profit Sharing Savings Plan, which is qualified under Section 401 of the Internal Revenue Code. Under the provisions of the plan, all participants may contribute up to 60% of their compensation, subject to limitations established by the Internal Revenue Service. The Company may contribute a matching contribution of not less than 50% of the employee contributions up to 6% of the employee's compensation. The Company may also provide special discretionary contributions equal to a percentage of an employee's annual compensation and/or an amount determined by management. During fiscal years 2009 and 2008, contributions made by the Company under this plan totaled $19,000 and $35,000, respectively.

Cortelco offers a Section 401(k) Safe Harbor Profit Sharing Plan and Trust, a tax-qualified retirement plan, to eligible employees. Under the provisions of the plan, all participants may contribute a percentage of their compensation, subject to limitations established by the Internal Revenue Service. Cortelco contributes a matching contribution in an amount specified by management each year. Discretionary contributions may be made to the profit sharing portion of Cortelco's plan in an amount specified by management annually. Company contributions made under the Cortelco plan since April 1, 2009 totaled $18,000.

## 16. Commitments and Contingencies

(a) Operating Leases

The Company is obligated under non-cancelable operating lease agreements for its primary warehouse, office facilities and certain office equipment. Future minimum annual lease payments totaling $396,000 under non-cancelable operating lease agreements with remaining terms greater than one year are as follows (dollars in thousands):

| | July 31, |
|---|---|
| 2010 | $247 |
| 2011 | $114 |
| 2012 | $ 35 |
| Total | $396 |

Rent expense for operating leases for the years ended July 31, 2009 and 2008 totaled $279,000 and $388,000, respectively.

On August 10, 2009, the Company's lease for 11,321 sq. ft. of office and warehouse space in Kennesaw, Georgia was cancelled and the Company entered into a new sublease for approximately 2,002 sq. ft. The new sublease has a term of three years and provides for rent expense of approximately $2,500 per month.

In July 2009, the Company terminated its leases for approximately 4,171 sq. ft. of office space in Beijing China. The Company currently shares space with Symbio in Beijing.

The Company leases approximately 3,780 sq. ft. of office space in San Jose, California. This joint lease with Spark Technologies has monthly rent of approximately $3,700 and expires December 31, 2010.

The Company leases approximately 77,000 sq. ft. of office and warehouse space in Corinth, Mississippi. The lease has monthly rent of approximately $12,000 and has a term of four years expiring in December 2010.

(b) Commitments

At July 31, 2007, the Company had outstanding commitments for inventory purchases under open purchase orders of $1,832,000. Purchase commitments for Cortelco account for approximately 91% of the value of the open purchase orders.

(c) Spark Purchase Option

On March 31, 2006, the Company entered into an Acquisition Option Agreement ("the Agreement") with Spark Technology Corporation. Spark designs and markets accessories for wireless telephones. Its primary product, CellStik™, is a small memory device that allows the user to backup, enter, edit and transfer their cell phone contacts. 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 had the option to purchase all remaining outstanding Spark Common Stock, including options, by issuing 8,665,000 (or 1,733,000 after the effect of the Company's 1:5 reverse stock split) shares of the Company's common stock. In March 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 provided that in the event the Company did not exercise this option, the Company could require Spark or David Lee, the Company's Chief Executive Officer and 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.

**17. Segments**

The Company's reportable segments are Communications Systems and Services and Telephony Products, each of which offers different products and services. The Communications Systems and Services segment develops and markets products that help businesses communicate more effectively and efficiently with their customers. The Telephony Products segment provides telephone products, service and support to businesses and organizations. Performance of each segment is assessed independently. Prior to the acquisition of Cortelco on April 1, 2009, the Company reported all of its operations as one segment. Segment reporting for activity for the fiscal year ended and balances as of July 31, 2009 follows:

| | Communications Systems and Services | Telephony Products | Total |
|---|---|---|---|
| Revenue | 6,414 | 4,231 | 10,645 |
| Income (loss) from operations | (769) | 435 | (334) |
| Provision for income tax | — | (5) | (5) |
| Net income (loss) | (769) | 430 | (339) |
| Total assets | 6,808 | 6,812 | 13,620 |
| Capital expenditures | 12 | — | 12 |
| Allowance for doubtful accounts | 299 | 33 | 332 |
| Depreciation and amortization | 159 | 21 | 180 |

Substantially all of the Company's revenues are earned in the United States and the People's Republic of China ("PRC"). Revenue earned in the PRC for the fiscal year ended July 31, 2009 was approximately $928,000 or 8.7% of total revenue for the fiscal year. During the fiscal year ended July 31, 2008, revenue in the PRC was approximately $776,000 or 11.1% of total revenue.

### 18. Subsequent Event

The Company has evaluated events through October 29, 2009 for consideration as a subsequent event to be included in its July 31, 2009 financial statements issued October 29, 2009.

## ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

## ITEM 9A(T). CONTROLS AND PROCEDURES.

*Disclosure Controls and Procedures.*

Our management, with the participation of our chief executive officer and chief financial officer, has evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of the end of the period covered by this report. Based on such evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of such period, our disclosure controls and procedures are effective in recording, processing, summarizing and reporting, on a timely basis, information required to be disclosed by us in the reports that we file or submit under the Exchange Act.

*Internal Control Over Financial Reporting.*

There have not been any changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

*Management's Annual Report on Internal Control Over Financial Reporting.*

Management of the Company is responsible for establishing and maintaining adequate control over financial reporting. The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) promulgated under Securities Exchange Act of 1934, as amended (the Exchange Act).

As of July 31, 2009, management assessed the effectiveness of the Company's internal control over financial reporting based on criteria for effective internal control over financial reporting established in *Internal Control – Integrated Framework*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of July 31, 2009 is effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Corporation to provide only management's report in this annual report.

## ITEM 9B. OTHER INFORMATION.

There were no events that occurred in the fourth quarter that were not previously disclosed in a form 8-K.

## PART III

### ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS, CONTROL PERSONS AND CORPORATE GOVERNANCE; COMPLIANCE WITH SECTION 10(a) OF THE EXCHANGE ACT.

Information set forth under the captions “Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in the Company’s definitive Proxy Statement (“Proxy Statement”), which will be filed with the Securities and Exchange Commission not later than 120 days after July 31, 2009, are incorporated herein by reference in response to this item.

Information with respect to executive officers is set forth under the caption “Executive Officers” in Part I of this report.

### ITEM 11. EXECUTIVE COMPENSATION.

Information set forth under the caption “Executive Compensation” in the Proxy Statement is incorporated herein by reference in response to this item.

### ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.

Information set forth under the caption “Stock Ownership” in the Proxy Statement is incorporated herein by reference.

### ITEM 13. CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS.

Information set forth under the caption “Certain Transaction” in the Proxy Statement is incorporated herein by reference in response to this item.

### ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

**Audit Fees**

Information set forth under the caption “Fees Paid to Principal Accountant” in the Proxy Statement is incorporated by reference in response to this item.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

### (A) (1) Financial Statements

The following information appears in Item 8 of Part II of this Report:

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets as of July 31, 2009 and 2008
- Consolidated Statements of Operations for the Years Ended July 31, 2009 and 2008
- Consolidated Statements of Cash Flows for the Years Ended July 31, 2009 and 2008
- Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) for the Years Ended July 31, 2009 and 2008
- Notes to Consolidated Financial Statements

### (B) Exhibits

The exhibits listed in the Exhibit Index following the signature page of this report are filed as part of this report or are incorporated by reference herein.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**EON COMMUNICATIONS CORPORATION**

Date: October 29, 2009

By /s/ LEE M. BOWLING
**Lee M. Bowling,**
**Chief Financial Officer**
**(Principal Financial Officer)**

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Name | Title | Date |
|---|---|---|
| /s/ JAMES W. HOPPER<br>**James W. Hopper** | Chief Executive Officer, Director (Principal Executive Officer) | October 29, 2009 |
| /s/ LEE M. BOWLING<br>**Lee M. Bowling** | Chief Financial Officer (Principal Financial Officer) | October 29, 2009 |
| /s/ ROBERT P. DILWORTH<br>**Robert P. Dilworth** | Director | October 29, 2009 |
| /s/ W. FRANK KING<br>**W. Frank King** | Director | October 29, 2009 |
| /s/ FREDERICK W. GIBBS<br>**Frederick W. Gibbs** | Director | October 29, 2009 |
| /s/ DAVID S. LEE<br>**David S. Lee** | Chairman of the Board, Director | October 29, 2009 |

## EXHIBIT INDEX

Documents listed below are being filed as exhibits herewith. Exhibits identified by asterisks (*) are being incorporated herein by reference and, pursuant to Rule 12b-32 of the General Rules and Regulations promulgated by the Commission under the Securities Exchange Act of 1934, reference is made to such documents as previously filed exhibits with the Commission.

| Exhibit Number | Description of Document |
|---|---|
| 2.1 | Agreement and Plan of Merger to Acquire Cortelco Systems Holding Corp., incorporated herein by reference to eOn's Form 8-K dated December 12, 2008 |
| 3.1 | Amended and Restated Certificate of Incorporation of eOn as filed with the Secretary of State of Delaware on November 16, 1999, incorporated herein by reference to eOn's Registration Statement on Form S-1 (No. 333-77021), filed with the SEC on April 26, 1999 |
| 3.2 | Amendment to Certificate of Incorporation of eOn, incorporated herein by reference to eOn's Registration Statement on Form S-1/A (No. 333-77021), filed with the SEC on November 23, 1999 |
| 3.3 | Amendment to Certificate of Incorporation of eOn, incorporated herein by reference to eOn's Form 8-K dated April 18, 2008 |
| 3.3 | Amended and Restated Bylaws of eOn, incorporated herein by reference to eOn's Form 8-K dated December 11, 2007 |
| 4.1 | Reference is made to Exhibits 3.1, 3.2, and 3.3 |
| 10.1 | Form of Indemnity Agreement between eOn and its officers and directors incorporated herein by reference to eOn's Registration Statement on Form S-1 (No. 333-77021), filed with the SEC on April 26, 1999 |
| 14.1 | Code of Ethics, incorporated herein by reference to Exhibit 14.1 of eOn's Form 10-K/A filed July 19, 2005 |
| 21.1 | Subsidiaries of eOn Communications Corporation |
| 23.1 | Consent of GHP Horwath, P.C. |
| 31.1 | Rule 13a-14(a)/15d-14(a) Certifications |
| 32.1 | Section 1350 Certifications |

**Exhibit 21.1**

**Subsidiaries of eOn Communications Corporation**

Cortelco China Corporation, a California corporation

eOn Communications (Beijing) Corporation Limited

eOn IP Voice, Inc.

Cortelco Systems Holding Corp.

Cortelco, Inc.

Cortelco Puerto Rico

**Exhibit 23.1**

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-36460) of eOn Communications Corporation of our report dated October 29, 2009, which appears on Page 33 of this annual report on Form 10-K for the year ended July 31, 2009.

/s/ GHP Horwath, P.C.

Denver, Colorado
October 29, 2009

**Exhibit 31.1**

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

I, James W. Hopper, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: October 29, 2009

/s/ JAMES W. HOPPER

**James W. Hopper**
**Chief Executive Officer**

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

I, Lee M. Bowling, certify that:

1. I have reviewed this annual report on Form 10-K 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 annual 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)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) 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: October 29, 2009

/s/ LEE M. BOWLING

**Lee M. Bowling**
**Chief Financial Officer**

**Exhibit 32.1**

**CERTIFICATIONS**
**PURSUANT TO 18 U.S.C. 1350**
**(SECTION 302 OF SARBANES-OXLEY ACT OF 2002)**

In connection with this annual report on Form 10-K of eOn Communications Corporation ("Registrant") I, James W. Hopper, Chief Executive Officer of Registrant, certify, pursuant to 18 U.S.C §1350, as adopted pursuant to §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.

Date: October 29, 2009

/s/ JAMES W. HOPPER

**James W. Hopper**
**Chief Executive Officer**

In connection with this annual report on Form 10-K of eOn Communications Corporation ("Registrant") I, Lee M. Bowling, Chief Financial Officer of Registrant, certify, pursuant to 18 U.S.C §1350, as adopted pursuant to §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.

Date: October 29, 2009

/s/ LEE M. BOWLING

**Lee M. Bowling**
**Chief Financial Officer**

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These certifications accompany each report pursuant to §906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of §18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.