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TERAFORCE TECHNOLOGY CORP

Form 8-K/A

March 25, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported) January 14, 2002

TeraForce Technology Corporation

(Exact name of registrant as specified in its charter)

Delaware	0-11630	76-0471342
-----	-----	-----
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

1240 East Campbell Road, Richardson, Texas	75081
-----	-----
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code (469) 330-4960

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ITEM 2. ACQUISITION OR DISPOSITION OF ASSETS.

On January 14, 2002, TeraForce Technology Corporation (the "Company") and its wholly-owned subsidiary, DNA Enterprises, Inc. ("DNA") entered into an Asset Purchase Agreement with Flextronics Design S.D., Inc., a unit of Flextronics International, Ltd. ("Flextronics") whereby Flextronics acquired the design services business conducted by DNA. Concurrently, the Company and Flextronics entered into a Design/Engineering Services Agreement.

The accompanying Pro Forma Condensed Balance Sheet as of September 30,

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2001 reflects the financial position of the Company as if this transaction had been completed as of that date. The Pro Forma Condensed Statements of Operations for the Year ended December 31, 2000 and for the Nine Months ended September 30, 2001 reflect the results of operations of the Company as if the transaction had been completed as of January 1, 2000.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

(a) Financial Statements of Business to Be Acquired: N/A

(b) Pro Forma Financial Information

Pro Forma Condensed Balance Sheet as of September 30, 2001

Pro Forma Condensed Statement of Operations for the Nine Months ended September 30, 2001

Pro Forma Condensed Statement of Operations for the Year ended December 31, 2000

(c) Exhibits:

None

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

TeraForce Technology Corporation

(Registrant)

Date: March 25, 2002

By: /s/ Herman M. Frietsch

(Signature)

Herman M. Frietsch
Chairman of the Board and CEO

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BASIS OF PRESENTATION

On January 14, 2002, TeraForce Technology Corporation (the "Company") and its wholly-owned subsidiary, DNA Enterprises, Inc. ("DNA") entered into an Asset Purchase Agreement with Flextronics Design S.D., Inc., a unit of Flextronics International, Ltd. ("Flextronics") whereby Flextronics acquired the design services business conducted by DNA. Concurrently, the Company and Flextronics entered into a Design/Engineering Services Agreement.

Under the Asset Purchase Agreement Flextronics acquired the assets related to DNA's design services business, including tangible assets, software, contracts and customer lists. Consideration for the assets amounted to \$2,800,000, consisting of \$1,800,000 in cash and a hold-back of \$1,000,000 to be applied against amounts related to the Design/Engineering Services Agreement. Of the \$1,800,000 cash amount, \$140,000 will be retained by Flextronics as a hold-back against potential indemnity claims for a period of six months. As is customary in transactions of this nature, the Company and DNA have indemnified Flextronics for losses it may incur resulting from the breach of representations and warranties contained in the agreement.

Concurrently with the completion of this transaction 25 of DNA's design engineers became employees of Flextronics. The balance of DNA's technical engineering staff has been terminated and DNA no longer provides engineering design services.

Pursuant to the Design/Engineering Services Agreement, Flextronics will provide the Company with design services at a discounted rate for a predetermined number of hours. The Company has agreed to purchase not less than \$1,000,000 worth of such services during a 12 month period following the closing

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of the transaction.

The accompanying pro forma financial statements reflect the financial position of the Company as of September 30, 2001 as if the transaction had been completed as of that date and the results of operations for the Company for the year ended December 31, 2000 and for the nine months ended September 30, 2001 as if the transaction had been completed as of January 1, 2000.

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TERAFORCE TECHNOLOGY CORPORATION AND SUBSIDIARIES
 Consolidated Condensed Pro Forma Balance Sheet
 September 30, 2001
 Unaudited
 (Thousands of dollars, except share data)

	Historical	Pro Forma Adjustments	Pr
	-----	-----	---
		Debit (Credit)	
Assets			
Current assets:			
Cash, cash equivalents and investments	\$ 242	\$ A) 1,660	\$
Accounts receivable, net	1,928	A) 1,019	
Inventories	3,952		
Prepaid expenses	205	A) (14)	
	-----	-----	---
Total current assets	6,327	2,665	
Property and equipment, net	1,282	A) (410)	
Goodwill, net	2,850	A) (2,850)	
Investment in joint venture	1,250		
Other assets	275		
	-----	-----	---
	\$ 11,984	(595)	\$
	=====	=====	==
Liabilities and Stockholders' Equity			
Current liabilities:			
Notes payable	\$ 4,850		\$
Accounts payable	1,799		
Accrued liabilities	1,394	A) 557	
	-----	-----	---
Total current liabilities	8,043	557	
Stockholders' equity	3,941	A) (1,152)	
	-----	-----	---
	\$ 11,984	(595)	\$
	=====	=====	==

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TERAFORCE TECHNOLOGY CORPORATION AND SUBSIDIARIES
 Pro Forma Consolidated Condensed Statements of Operations
 Nine Months Ended September 30, 2001
 Unaudited
 (Thousands of dollars, except per share data)

	Historical	Pro Forma Adjustments	Pro Forma
	-----	-----	-----
Net revenues	\$ 8,831	\$ A) (3,000)	\$ 5,831
Cost of revenue	10,239	A) (3,642)	6,597
	-----	-----	-----
Gross profit (loss)	(1,408)	642	(766)
	-----	-----	-----
Expenses:			
Engineering and development	4,033	B) 1,000	5,033
Selling and administrative	8,385	A) (1,155)	7,230
Costs related to sale of assets	1,570		
Amortization of goodwill	504	(504)	--
	-----	-----	-----
	14,492	(659)	13,833
	-----	-----	-----
Operating loss	(15,900)	1,301	(14,599)
	-----	-----	-----
Other income (expense):			
Interest expense	(88)		(88)
Interest income and other	(9)		(9)
	-----	-----	-----
	(97)		(97)
	-----	-----	-----
Loss before income taxes	(15,997)	1,301	(14,696)
	-----	-----	-----
Income tax expense	--		--
	-----	-----	-----
Net loss	\$ (15,997)	\$ 1,301	(14,696)
	=====	=====	=====
Basic and diluted loss per share:			
Net loss per share	\$ (.19)		(.17)
	=====		=====
Weighted average number of common shares outstanding (thousands)	86,242		86,242
	=====		=====

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TERAFORCE TECHNOLOGY CORPORATION AND SUBSIDIARIES
 Pro Forma Consolidated Condensed Statements of Operations
 Year Ended December, 2000
 Unaudited
 (Thousands of dollars, except per share data)

	Historical	Pro Forma Adjustments	Pro Forma
	-----	-----	-----
Net revenues	\$ 18,750	\$ A) (4,596)	\$ 14,154
Cost of revenue	19,658	A) (5,140)	14,518
	-----	-----	-----
Gross profit (loss)	(908)	544	(364)
	-----	-----	-----
Expenses:			
Engineering and development	5,258	B) 1,000	6,258
Selling and administrative	13,973	A) (1,499)	12,474
Asset writedowns	9,251		9,251
Amortization of goodwill	672	A) (672)	--
	-----	-----	-----
	29,154	(1,171)	27,983
	-----	-----	-----
Operating loss	(30,062)	1,715	(28,347)
	-----	-----	-----
Other income (expense):			
Interest expense	(798)		(798)
Interest income and other	1,288		1,288
	-----	-----	-----
	490		490
	-----	-----	-----
Loss before income taxes	(29,572)	1,715	(27,857)
	-----	-----	-----
Income tax expense	--	--	--
Net loss	\$ (29,572)	1,715	\$ (27,857)
	-----	-----	-----
Dividends on preferred stock	966	--	966
	-----	-----	-----
Loss allocable to common stockholders	\$ (30,538)	\$ 1,715	\$ (28,823)
	=====	=====	=====
Basic and diluted loss per share:			
Net loss per share	\$ (.37)		\$ (.35)
	=====		=====
Weighted average number of common shares outstanding (thousands)	83,229		83,229
	=====		=====

Pro Forma Adjustments

The pro forma adjustments in the accompanying pro forma financial statements are described below.

Balance Sheet:

A) To record sale of assets related to engineering design services business.

Statements of Operations:

A) To eliminate results of operations related to engineering design services business.

B) To reflect services provided under Design / Engineering Services Agreement.