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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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FINANCIAL STATEMENT INDEX

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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 ----- Debit (Credit) | Pr ----- |
|--|---------------------|---|-------------|
| 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.