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TERAFORCE TECHNOLOGY CORP

Form 8-K

January 15, 2002

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

FORM 8-K

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

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.

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

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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 of the transaction.

ITEM 7. FINANCIAL STATEMENTS AND EXHIBITS.

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

(b) Pro Forma Financial Information

Pro forma financial information reflecting the effect of the transaction described in Item 2. above will be filed within 60 days of the required filing date for this report on Form 8-K.

(c) Exhibits:

| Exhibit | Description of Exhibit |
|---------|---------------------------------------|
| 10.1 | Asset Purchase Agreement |
| 10.2 | Design/Engineering Services Agreement |

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: January 14, 2002

By: /s/ Herman M. Frietsch

(Signature)

Herman M. Frietsch
Chairman of the Board and CEO

EXHIBIT INDEX

| EXHIBIT NUMBER ----- | DESCRIPTION ----- |
|----------------------------|---------------------------------------|
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