

TERAFORCE TECHNOLOGY CORP
Form 8-K
July 06, 2005

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):

June 30, 2005

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)

(I.R.S. 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

Not Applicable

Former name or former address, if changed since last report

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Top of the Form

Item 2.04 Triggering Events That Accelerate or Increase a Direct Financial Obligation or an Obligation Under an Off-Balance Sheet Arrangement.

The Company's 12% Convertible Subordinated Notes (the "Notes") matured on June 30, 2005. Principal and accrued interest due under the notes amounts to approximately \$3,215,000. The Company has not made payment of these amounts. Failure to make these payments constitutes an event of default pursuant to the note agreement underlying the Notes. The holders of the Notes have the right to demand that the unpaid principal and accrued interest are immediately due and payable. The Company has not received such demand.

Default under the Notes constitutes a default under the Company's other borrowing arrangements, including the \$2,750,000 credit agreement with Encore Bank, the \$3,900,000 credit agreement with Bank One, NA and the Company's \$500,000 convertible note payable. Upon notice from the holders of these obligations these amounts, plus any accrued and unpaid interest, becomes immediately due and payable. The Company has not received such notice from the holders of any of these obligations.

Pursuant to the terms of the subordination provisions of the Notes, the Company is prohibited from making any payments pursuant to the Notes if an event of default exists on any senior debt, as defined. The credit agreement with Encore Bank and Bank One and the \$500,000 convertible note are considered senior debt for this purpose.

Should the holders of any of the obligations described above make demand of the Company for payment or instigate legal actions, the Company could be forced to seek bankruptcy protection.

Top of the Form

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

July 6, 2005

By: Robert P. Capps

Name: Robert P. Capps
Title: Chief Financial Officer