

TERAYON COMMUNICATION SYSTEMS
 Form 424B3
 February 09, 2001

Filing Pursuant to Rule 424(b)(3)
 Registration Statement No. 333-48536

PROSPECTUS SUPPLEMENT NO. 1 DATED FEBRUARY 9, 2001
 TO PROSPECTUS DATED JANUARY 22, 2001

TERAYON COMMUNICATION SYSTEMS, INC.

\$500,000.00

of 5% Convertible Subordinated Notes Due 2007 and 5,951,673 Shares of
 Common Stock Issuable Upon Conversion of the Notes

Please read this prospectus supplement in conjunction with the prospectus dated
 January 22, 2001 (the "Prospectus"). The table on pages 21 thru 24 of the
 Prospectus setting forth information concerning the selling holders is
 superseded by the following table:

SELLING HOLDERS

We originally issued the Notes and the Notes were sold by the initial purchasers
 in a transaction exempt from the registration requirements of the Securities Act
 to persons reasonably believed by the initial purchasers to be qualified
 institutional buyers or other institutional accredited investors. Selling
 holders, including their transferees, pledgees or donees or their successors,
 may from time to time offer and sell pursuant to this prospectus any or all of
 the Notes and common stock into which the Notes are convertible. We agreed to
 use reasonable efforts to keep the registration statement effective until July
 26, 2002. Our registration of the Notes and the shares of common stock into
 which the Notes are convertible does not necessarily mean that the selling
 holders will sell any or all of the Notes or the shares of the common stock into
 which the Notes are convertible.

The following table sets forth information, as of February 9, 2001, with respect
 to the selling holders and the principal amounts of Notes beneficially owned by
 each selling holder that may be offered under this prospectus. The information
 is based on information provided by or on behalf of the selling holders. The
 selling holders may offer all, some or none of the Notes or common stock into
 which the Notes are convertible. Because the selling holders may offer all or
 some portion of the Notes or the common stock, no estimate can be given as to
 the amount of the Notes or the common stock that will be held by the selling
 holders upon termination of any sales. In addition, the selling holders
 identified below may have sold, transferred or otherwise disposed of all or a
 portion of their Notes since the date on which they provided the information
 regarding their Notes in transactions exempt from the registration requirements
 of the Securities Act.

| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) | Common Stock Offered |
|----------------|---|---|-------------------------|
| ----- | ----- | ----- | ----- |

Edgar Filing: TERAYON COMMUNICATION SYSTEMS - Form 424B3

AAM/Zazove Institutional Income 1,200,000 14,284 14,284

S-1

| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) | Common Stock Offered |
|---|---|---|-------------------------|
| Fund, L.P. | | | |
| AIG Soundshore Opportunity Holding Fund Ltd. (2) | 2,488,000 | 29,615 | 29,615 |
| AIG Soundshore Strategic Holding Fund Ltd. (2) | 2,185,000 | 26,008 | 26,008 |
| Alexandria Global Investment Fund I LTD. | 3,000,000 | 35,710 | 35,710 |
| Arbitex Master Fund, L.P. | 4,500,000 | 53,565 | 53,565 |
| Argent Classic Convertible Arbitrage Fund (Bermuda) L.P. | 15,000,000 | 178,550 | 178,550 |
| Argent Convertible Arbitrage Fund Ltd. | 1,000,000 | 11,904 | 11,904 |
| Aspen Global Technology Fund | 674,000 | 8,023 | 8,023 |
| Associated Electric & Gas Insurance Services Limited | 850,000 | 10,117 | 10,117 |
| AST Janus Small Cap Growth Portfolio | 8,185,000 | 97,429 | 97,429 |
| Aventis Pension Master Trust | 440,000 | 5,237 | 5,237 |
| Bank Austria Cayman Islands, Ltd. | 5,500,000 | 65,468 | 65,468 |
| Bank of America Securities, LLC | 5,000,000 | 59,516 | 59,516 |
| BankAmerica Pension Plan | 2,000,000 | 23,807 | 23,807 |
| Black Diamond Offshore, Ltd. | 665,000 | 7,916 | 7,916 |
| Boilermaker - Blacksmith Pension Trust | 2,700,000 | 32,139 | 32,139 |
| BS Debt Income Fund - Class A | 15,000 | 178 | 178 |
| CALAMOS(R) Convertible Portfolio - CALAMOS(R) Advisors Trust | 150,000 | 1,785 | 1,785 |
| CALAMOS(R) Convertible Technology Fund - CALAMOS(R) Investment Trust | 390,000 | 4,642 | 4,642 |
| CALAMOS(R) High Yield Fund - CALAMOS(R) Investment Trust | 390,000 | 4,642 | 4,642 |
| Canyon Capital Arbitrage Master Fund | 1,000,000 | 11,904 | 11,904 |

Edgar Filing: TERAYON COMMUNICATION SYSTEMS - Form 424B3

Canyon Value Realization (Cayman) Ltd. 11,000,000 130,937 130,937

S-2

| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) |
|---|---|---|
| CFFX, LLC | 1,000,000 | 11,904 |
| CIBC World Markets | 5,500,000 | 65,468 |
| City of Albany Pension Fund | 245,000 | 2,916 |
| City of Knoxville Pension System | 640,000 | 7,618 |
| Clinton Riverside Convertible Portfolio Limited | 2,100,000 | 24,997 |
| Cova Bond Debenture Fund | 500,000 | 5,952 |
| Credit Research & Trading LLC | 14,840,000 | 176,645 |
| Daiwa Securities America Inc. (2) | 17,500,000 | 208,308 |
| Deeprock + Co. | 2,000,000 | 23,807 |
| Delphi Financial Group, Inc. | 500,000 | 5,952 |
| Delta Airlines Master Trust | 4,900,000 | 58,326 |
| Delta Pilots Disability Survivorship Trust | 200,000 | 2,380 |
| Department of Fire & Police Pensions Systems | 7,075,000 | 84,216 |
| Deutsche Bank Securities Inc. | 56,134,000 | 668,182 |
| Double Black Diamond Offshore, LDC | 2,708,000 | 32,235 |
| Duckbill + Co. | 630,000 | 7,500 |
| ECT Investments, Inc. | 1,000,000 | 11,903 |
| Elf Aquitaine | 150,000 | 1,786 |
| Florida Street Bond Fund | 1,000,000 | 11,903 |
| Fuji U.S. Income Open | 500,000 | 5,952 |
| General Motors Employees Global | 6,175,000 | 73,503 |
| General Motors Welfare Benefit Trust (St. Veba) | 2,000,000 | 23,807 |
| Greek Catholic Union II | 45,000 | 535 |
| IBM Retirement Plan - High Income | 920,000 | 10,951 |

Edgar Filing: TERAYON COMMUNICATION SYSTEMS - Form 424B3

Ilanot Batucha Investment House LTD 300,000 3,571

S-3

| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) |
|--|---|---|
| Israel Brokerage & Investments IBI LTD | 100,000 | 1,190 |
| J.P. Morgan Securities, Inc. | 23,597,000 | 280,883 |
| Janus Global Technology Fund | 16,665,000 | 198,370 |
| Janus Venture Fund | 19,025,000 | 226,462 |
| Jefferies & Co. | 875,000 | 10,415 |
| Jersey (IMA) Ltd. | 250,000 | 2,976 |
| JMG Capital Partners, L.P. | 13,000,000 | 154,743 |
| JMG Triton Offshore Fund, Ltd. | 31,500,000 | 374,955 |
| Julius Baer Securities, Inc. | 250,000 | 2,975 |
| JWF Global Technology Fund | 1,154,000 | 13,737 |
| JWF US Venture Fund | 1,990,000 | 23,688 |
| KBC Financial Products USA Inc. | 4,500,000 | 53,565 |
| Kentfield Trading, Ltd. | 3,800,000 | 45,232 |
| Kettering Medical Center Funded Depreciation Account | 160,000 | 1,904 |
| Knoxville Utilities Board Retirement System | 400,000 | 4,761 |
| Lehman Brothers Inc. | 18,500,000 | 220,211 |
| Leonardo, L.P, | 12,000,000 | 142,840 |
| LibertyView Funds L.P. | 750,000 | 8,928 |
| Lonestar Partners, L.P. | 4,500,000 | 53,565 |
| Lord Abbett Bond Debenture Fund | 5,850,000 | 69,635 |
| Louisiana Workers' Compensation Corporation | 360,000 | 4,285 |
| Lumber Industries, Inc. | 750,000 | 8,927 |
| Lydian Overseas Partners Master Fund | 15,000,000 | 178,551 |
| Magten Asset Management Corp. Pension Plan & Trust | 485,000 | 5,773 |

Edgar Filing: TERAYON COMMUNICATION SYSTEMS - Form 424B3

| | | |
|-----------------------------|-----------|--------|
| Magten Group Trust | 300,000 | 3,571 |
| McMahan Securities Co. L.P. | 1,000,000 | 11,904 |

S-4

| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) |
|---|---|---|
| ----- | ----- | ----- |
| Merrill, Lynch, Pierce, Fenner and Smith, Inc. | 16,000 | 190 |
| Morgan Stanley & Co. | 2,500,000 | 29,758 |
| Nomura Securities International, Inc. | 1,000,000 | 11,904 |
| Nomura/Janus Global Technology | 1,507,000 | 17,939 |
| Oxford Lord Abbett + Co. | 1,000,000 | 11,904 |
| Pacific Life Insurance Company | 1,000,000 | 11,904 |
| Peoples Benefit Life Insurance Company | 4,220,000 | 50,233 |
| Peoples Benefit Life Insurance Company (Teamsters Separate Account) | 6,250,000 | 74,395 |
| Port Authority of Allegheny County Retirement and Disability Allowance Plan for the Employees Represented by Local 85 of the Amalgamated Transit Union | 2,825,000 | 33,626 |
| Quattro Crestline Special Situations | 500,000 | 5,951 |
| Quattro Fund | 1,000,000 | 11,904 |
| Ramus Capital Group Holdings, Ltd. | 1,300,000 | 15,474 |
| RCG Latitude Master Fund, Ltd. | 200,000 | 2,380 |
| Research Capital Corporation | 9,650,000 | 114,867 |
| Retail Clerks Pension Trust | 2,000,000 | 23,807 |
| Retail Clerks Pension Trust #2 | 1,000,000 | 11,904 |
| San Diego County Employee's Retirement Association | 3,930,000 | 46,780 |
| SPT | 1,100,000 | 13,093 |
| St. Albans Partners Ltd. | 4,000,000 | 47,613 |
| Standard Mortgage Holding Corp. | 500,000 | 5,951 |

Edgar Filing: TERAYON COMMUNICATION SYSTEMS - Form 424B3

The Bakal Company Limited Partnership

150,000

1,785

S-5

| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) | Common Stock Offered |
|--|---|---|-------------------------|
| The Dow Chemical Company Employees' Retirement Plan | 5,325,000 | 63,385 | 63,385 |
| The Fondren Foundation | 165,000 | 1,964 | 1,964 |
| TQA Master Fund, LTD | 1,000,000 | 11,904 | 11,904 |
| TQA Master Plus Fund, Ltd. | 435,000 | 5,117 | 5,117 |
| UBS AG, London Branch | 20,000,000 | 238,066 | 238,066 |
| UBS Warburg AG | 2,000,000 | 23,806 | 23,806 |
| Unifi, Inc. Profit Sharing Plan and Trust | 255,000 | 3,035 | 3,035 |
| United Food and Commercial Workers Local 1262 and Employees Pension Fund | 1,260,000 | 14,998 | 14,998 |
| United Mizrahi Bank LTD | 50,000 | 595 | 595 |
| Valentis Investors LLC | 2,000,000 | 23,806 | 23,806 |
| Value Realization Fund B, LP | 500,000 | 5,952 | 5,952 |
| Value Realization Fund, L.P. | 8,000,000 | 95,227 | 95,227 |
| Van Waters & Rogers, Inc. Retirement Plan | 770,000 | 9,165 | 9,165 |
| Wasserstein Perella Securities Inc. | 7,600,000 | 90,465 | 90,465 |
| Worldwide Transactions, Ltd. | 127,000 | 1,512 | 1,512 |
| Zurich HFR Master Hedge Fund Index Ltd. | 300,000 | 3,571 | 3,571 |
| Any other holders of Notes or future holders | 30,910,000 | 368,004 | 368,004 |
| Total | \$500,000,000 | 5,951,673 | 5,951,673 |

(1) Assumes a conversion rate of 11.9033 shares of common stock per \$1,000 principal amount of Notes and a cash payment in lieu of any fractional interest.

(2) AIG Soundshare Strategic Holding Fund Ltd. and AIG Soundshare Opportunity

Edgar Filing: TERAYON COMMUNICATION SYSTEMS - Form 424B3

Holding Fund Ltd. each hold 75 shares of our common stock, Daiwa Securities America Inc. holds 35,166 shares of our common stock and Lumber Industries, Inc. holds 4,000 shares of our common stock in addition to any shares they would acquire upon conversion of the Notes.

S-6

- (3) Assumes that any other holders of Notes or any future transferee from any holder do not or will not beneficially own any common stock other than common stock into which the Notes are convertible at the conversion rate of 11.9033 shares of common stock per \$1,000 principal amount of Notes.

None of the selling holders nor any of their affiliates, officers, directors or principal equity holders has held any position or office or has had any material relationship with us within the past three years with the exception of Deutsche Bank Securities Inc. and Lehman Brothers Inc. In the past three years, Deutsche Bank and Lehman Brothers have acted as underwriters of the Company's initial public offering and follow-on public offering and were initial purchasers in the offering of the Notes. The selling holders purchased all of the Notes in a private transaction. All of the Notes and the shares of common stock into which the Notes are convertible are "restricted securities" under the Securities Act.

Information concerning the selling holders may change from time to time and any changed information will be set forth in supplements to this prospectus if and when necessary. In addition, the conversion price, and therefore, the number of shares of common stock issuable upon conversion of the Notes, is subject to adjustment under certain circumstances. Accordingly, the aggregate principal amount of Notes and the number of shares of common stock into which the Notes are convertible may increase or decrease.

The date of this Prospectus Supplement is February 9, 2001.

S-7