

TERAYON COMMUNICATION SYSTEMS

Form 424B3

July 15, 2002

**PROSPECTUS SUPPLEMENT NO. 23 DATED JULY 15, 2002
TO PROSPECTUS DATED JANUARY 22, 2001****TERAYON COMMUNICATION SYSTEMS, INC.**

\$500,000,000

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 through 24 of the Prospectus setting forth information concerning the selling holders, prospectus supplement no. 1 dated February 9, 2001, prospectus supplement no. 2 dated February 16, 2001, prospectus supplement no. 3 dated February 20, 2001, prospectus supplement no. 4 dated February 23, 2001, prospectus supplement no. 5 dated March 2, 2001, prospectus supplement no. 6 dated March 9, 2001, prospectus supplement no. 7 dated March 16, 2001, prospectus supplement no. 8 dated March 23, 2001, prospectus supplement no. 9 dated April 27, 2001, prospectus supplement no. 10 dated May 4, 2001, prospectus supplement no. 11 dated May 11, 2001, prospectus supplement no. 12 dated May 25, 2001, prospectus supplement no. 13 dated June 4, 2001, prospectus supplement no. 14 dated July 13, 2001, prospectus no. 15 dated July 27, 2001, prospectus no. 16 dated August 22, 2001, prospectus no. 17 dated November 16, 2001, prospectus no. 18 dated February 7, 2002, prospectus no. 19 dated February 20, 2002, prospectus no. 20 dated April 4, 2002, prospectus no. 21 dated May 6, 2002 and prospectus no. 22 dated July 2, 2002 are superseded by the following table: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, donees or 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 agree 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 July 15, 2002, 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 |
|--|---|---|-------------------------|
| Arbitex Master Fund, L.P. | 1,200,000 | 14,284 | 14,284 |
| Black Diamond Offshore, Ltd. | 665,000 | 7,915 | 7,915 |
| CALAMOS® High Yield Fund CALAMOS® Investment Trust Investment Trust | 245,000 | 2,916 | 2,916 |

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| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) | Common Stock Offered |
|--|---|---|-------------------------|
| Credit Suisse First Boston | 1,000,000 | 11,903 | 11,903 |
| Deutsche Bank Securities, Inc. | 200,000 | 2,380 | 2,380 |
| Double Black Diamond Offshore, LDC | 2,708,000 | 32,234 | 32,234 |
| ECT Investments, Inc. | 1,000,000 | 11,903 | 11,903 |
| Faria Fund, Ltd. | 100,000 | 1,190 | 1,190 |
| Greenlight Capital, L.P. | 1,055,000 | 12,558 | 12,558 |
| Greenlight Capital Offshore, Ltd. | 2,413,000 | 28,722 | 28,722 |
| Greenlight Capital Qualified, L.P. | 2,532,000 | 30,139 | 30,139 |
| Ilanot Batucha Investment House, Ltd. | 300,000 | 3,571 | 3,571 |
| Israel Brokerage & Investments IBI, Ltd. | 100,000 | 1,190 | 1,190 |
| Jefferies & Co. | 875,000 | 10,415 | 10,415 |
| JMG Capital Partners, L.P. | 500,000 | 5,951 | 5,951 |
| JMG Triton Offshore Fund, Ltd. | 500,000 | 5,951 | 5,951 |
| JRS, Ltd. | 1,000,000 | 11,903 | 11,903 |
| Julius Baer Securities, Inc. | 250,000 | 2,975 | 2,975 |
| KBC Financial Products USA, Inc. | 900,000 | 10,713 | 10,713 |
| Lehman Brothers, Inc. | 1,200,000 | 14,284 | 14,284 |
| LibertyView Funds, LLC | 100,000 | 1,190 | 1,190 |
| LibertyView Funds, L.P. | 400,000 | 4,761 | 4,761 |
| Lonestar Partners, L.P. | 2,500,000 | 29,758 | 29,758 |
| Lumber Industries, Inc. | 750,000 | 8,927 | 8,927 |
| Lydian Overseas Partners Master Fund | 15,000,000 | 178,550 | 178,550 |
| McMahan Securities Co., L.P. | 1,000,000 | 11,903 | 11,903 |
| Merrill, Lynch, Pierce, Fenner and Smith, Inc. | 16,000 | 190 | 190 |

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| Selling Holder | Principal Amount of Notes Beneficially Owned and Offered | Common Stock Issuable upon Conversion of the Notes (1) | Common Stock Offered |
|--|---|---|-------------------------|
| Miller Tabak Roberts Securities | 50,000 | 595 | 595 |
| Morgan Stanley & Co. | 2,500,000 | 29,758 | 29,758 |
| Pacific Life Insurance Company | 1,000,000 | 11,903 | 11,903 |
| Ramus Capital Group Holdings, Ltd. | 200,000 | 2,380 | 2,380 |
| Research Capital Corporation | 750,000 | 8,927 | 8,927 |
| Spear, Leads & Kellogg Capital Markets | 2,400,000 | 28,568 | 28,568 |
| Standard Mortgage Holding Corp. | 500,000 | 5,951 | 5,951 |
| The Class IC Company, Ltd. | 1,500,000 | 17,855 | 17,855 |
| United Mizrahi Bank, Ltd. | 50,000 | 595 | 595 |
| Valentis Investors, LLC | 2,000,000 | 23,806 | 23,806 |
| Ventana Partners, L.P. | 1,000,000 | 11,903 | 11,903 |
| DLG Securities Corp. | 100,000 | 1,190 | 1,190 |
| Investec Clali (Israel) Ltd. | 300,000 | 3,571 | 3,571 |
| Investec Ernst & Co. | 1,000,000 | 11,903 | 11,903 |
| Investec Bank Israel (Ltd.) | 1,000,000 | 11,903 | 11,903 |
| CRT Capital Group, LLC | 1,787,000 | 21,271 | 21,271 |
| Ilanot Batucha Asset Management Ltd. | 118,000 | 1,404 | 1,404 |
| Merced Partners Limited Partnership | 5,000,000 | 59,516 | 59,516 |
| Any other holders of Notes or future holders (2) | 40,377,000 | 480,622 | 480,622 |
| 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) Assumes that any other holders of Notes or any future transferees 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. Additionally, \$399,859,000 principal amount of Notes have

been
repurchased
by the
Company as
of July 15,
2002, which is
convertible
into 4,759,659
shares of
common
stock.

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, Inc. and Lehman Brothers, Inc. have acted as underwriters of the Company's initial public offering and follow-on public offering and as 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 July 15, 2002.