

TERAYON COMMUNICATION SYSTEMS  
 Form 424B3  
 February 20, 2001

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

PROSPECTUS SUPPLEMENT NO. 3 DATED FEBRUARY 20, 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 through 24 of the Prospectus setting forth information concerning the selling holders, the prospectus supplement no. 1 dated February 9, 2001 and the prospectus supplement no. 2 dated February 16, 2001 are superseded by the following table: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 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 20, 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
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AAM/Zazove Institutional Income 1,200,000 14,284 14,284

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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
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	11,903	11,903
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	11,903	11,903

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

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Selling Holder	Principal Amount of Notes Beneficially Owned and Offered	Common Stock Issuable upon Conversion of the Notes (1)
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CFFX, LLC	1,000,000	11,903
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
Deeprook + 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	32,234
Duckbill + Co.	630,000	7,499
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
Greenlight Capital, L.P.	4,437,000	52,815

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Greenlight Capital Offshore, Ltd.	9,429,000	112,236
Greenlight Capital Qualified, L.P.	9,994,000	118,962
IBM Retirement Plan - High Income	920,000	10,951
Ilanot Batucha Investment House LTD	300,000	3,571

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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	198,369
Janus Venture Fund	19,025,000	226,461
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	13,736
JWF US Ventre Fund	1,990,000	23,688
KBC Financial Products USA Inc.	4,500,000	53,565
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

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Lydian Overseas Partners Master Fund	15,000,000	178,550
Magten Asset Management Corp. Pension Plan & Trust	485,000	5,773
Magten Group Trust	300,000	3,571
McMahan Securities Co. L.P.	1,000,000	11,903

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Selling Holder	Principal Amount of Notes Beneficially Owned and Offered	Common Stock Issuable upon Conversation of the Notes (1)
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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	11,903
Nomura/Janus Global Technology	1,507,000	17,938
Oxford Lord Abbett + Co.	1,000,000	11,903
Pacific Life Insurance Company	1,000,000	11,903
Peoples Benefit Life Insurance Company	4,220,000	50,232
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	11,903
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	11,903
Sage Capital	3,000,000	35,710
San Diego County Employee's Retirement Association	3,930,000	46,780

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SPT	1,100,000	13,093
St. Albans Partners Ltd.	4,000,000	47,613
Standard Mortgage Holding Corp.	500,000	5,951
The Bakal Company Limited Partnership	150,000	1,785

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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
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	11,903	11,903
TQA Master Plus Fund, Ltd.	435,000	5,177	5,177
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	7,850,000	93,532	93,532
Total	\$500,000,000	5,951,673	5,951,673

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- (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 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.

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- (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 no. 3 is February 20, 2001.

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