



Enabling Connected Home Entertainment™

Non-GAAP Financial Measures

This schedule contains non-GAAP financial measures which exclude the income statement effects of, among others, all forms of stock-based compensation and the effects of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment, non-cash acquired intangibles amortization and impairment charges, and restructuring charges (benefits).

Management uses these non-GAAP financial measures to manage the company's business, including setting operating budgets and executive compensation plans. These non-GAAP measures are also used to (i) supplement the financial results and forecasts reported to the company's board of directors, (ii) evaluate the company's operating performance, (iii) compare the company's performance to internal forecasts, and (iv) manage the company's business and benchmarking performance internally. The non-GAAP measures have been made available to stockholders consistently in the past to provide transparency on how management manages the company's operating performance. Management believes that these non-GAAP operating measures are useful to investors, when used as a supplement to GAAP measures, in evaluating the company's ongoing operational performance.

The non-GAAP financial measures disclosed by the company should not be considered in isolation or a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP, and the financial results calculated in accordance with GAAP and reconciliations to those financial statements should be carefully evaluated. The non-GAAP financial measures used by the company may be calculated differently from, and therefore may not be comparable to, similarly titled measures used by other companies.

ENTROPIC COMMUNICATIONS, INC.
Non-GAAP Supplemental Financial Information
(Unaudited; in thousands, except percentage data)

The following table sets forth certain non-GAAP financial measures used in calculating Entropic's non-GAAP net (loss) income for the periods presented. Such non-GAAP financial measures are based upon Entropic's unaudited consolidated statements of operations for the periods presented and give effect to certain adjustments identified in the table. Such adjustments include the addition of RF Magic Inc.'s non-GAAP financial results as if the acquisition of RF Magic had occurred at the beginning of each period presented. The presentation of such non-GAAP financial measures is not intended to be considered in isolation or as a substitute for, or superior to, the financial information prepared and presented in accordance with GAAP. In addition, investors should not rely on the results of prior periods as an indication of Entropic's future performance.

	2007				2008				2009	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(unaudited)				(unaudited)				(unaudited)	
NET REVENUES:										
GAAP net revenues	\$ 20,026	\$ 26,207	\$ 36,144	\$ 40,168	\$ 41,988	\$ 42,836	\$ 31,678	\$ 29,531	\$ 24,123	\$ 26,146
Add: RF Magic net revenues (pre-acquisition)	9,218	5,806	-	-	-	-	-	-	-	-
Non-GAAP net revenues	<u>\$ 29,244</u>	<u>\$ 32,013</u>	<u>\$ 36,144</u>	<u>\$ 40,168</u>	<u>\$ 41,988</u>	<u>\$ 42,836</u>	<u>\$ 31,678</u>	<u>\$ 29,531</u>	<u>\$ 24,123</u>	<u>\$ 26,146</u>
COST OF NET REVENUES:										
GAAP cost of net revenues	\$ 14,531	\$ 17,961	\$ 21,999	\$ 21,705	\$ 22,837	\$ 23,869	\$ 17,308	\$ 15,397	\$ 11,904	\$ 13,201
Add: RF Magic non-GAAP cost of net revenues (pre-acquisition) (a)	2,818	2,613	-	-	-	-	-	-	-	-
Less:										
Stock-based compensation expense	-	3	85	71	46	64	63	78	16	45
Amortization of developed technology	-	-	1,240	1,240	1,240	1,590	1,590	1,590	406	405
Amortization of inventory step-up	-	-	2,062	687	-	-	-	-	-	-
Non-GAAP cost of net revenues	<u>\$ 17,349</u>	<u>\$ 20,571</u>	<u>\$ 18,612</u>	<u>\$ 19,707</u>	<u>\$ 21,551</u>	<u>\$ 22,215</u>	<u>\$ 15,655</u>	<u>\$ 13,729</u>	<u>\$ 11,482</u>	<u>\$ 12,751</u>
GROSS PROFIT:										
GAAP gross profit	\$ 5,495	\$ 8,246	\$ 14,145	\$ 18,463	\$ 19,151	\$ 18,967	\$ 14,370	\$ 14,134	\$ 12,219	\$ 12,945
Add:										
RF Magic non-GAAP gross profit (pre-acquisition) (a)	6,400	3,193	-	-	-	-	-	-	-	-
Stock-based compensation expense	-	3	85	71	46	64	63	78	16	45
Amortization of developed technology	-	-	1,240	1,240	1,240	1,590	1,590	1,590	406	405
Amortization of inventory step-up	-	-	2,062	687	-	-	-	-	-	-
Non-GAAP gross profit	<u>\$ 11,895</u>	<u>\$ 11,442</u>	<u>\$ 17,532</u>	<u>\$ 20,461</u>	<u>\$ 20,437</u>	<u>\$ 20,621</u>	<u>\$ 16,023</u>	<u>\$ 15,802</u>	<u>\$ 12,641</u>	<u>\$ 13,395</u>
GAAP gross margin	27.4%	31.5%	39.1%	46.0%	45.6%	44.3%	45.4%	47.9%	50.7%	49.5%
Non-GAAP gross margin	40.7%	35.7%	48.5%	50.9%	48.7%	48.1%	50.6%	53.5%	52.4%	51.2%
OPERATING EXPENSES:										
GAAP operating expenses	\$ 6,457	\$ 31,631	\$ 19,208	\$ 21,006	\$ 22,655	\$ 25,677	\$ 21,613	\$ 133,325	\$ 20,997	\$ 17,188
Add: RF Magic non-GAAP operating expenses (pre-acquisition) (a)	5,392	5,737	-	-	-	-	-	-	-	-
Less:										
Stock-based compensation expense	140	728	2,869	2,622	3,578	3,308	3,395	2,955	2,792	2,175
Amortization of purchased intangibles	-	42	1,296	1,296	596	713	713	713	16	-
Write off of acquired in-process research and development	-	21,400	-	-	-	1,300	-	-	-	-
Vativ retention bonuses	-	-	-	-	-	698	-	-	-	-
Restructuring charges (benefit)	-	-	-	-	1,079	(10)	209	(19)	1,124	979
Impairment of goodwill and intangible assets	-	-	-	-	-	-	-	113,193	208	-
Non-GAAP operating expenses	<u>\$ 11,709</u>	<u>\$ 15,198</u>	<u>\$ 15,043</u>	<u>\$ 17,088</u>	<u>\$ 17,402</u>	<u>\$ 19,668</u>	<u>\$ 17,296</u>	<u>\$ 16,483</u>	<u>\$ 16,857</u>	<u>\$ 14,034</u>
OTHER INCOME (EXPENSE), NET:										
GAAP other income (expense), net and cumulative effect of change in accounting principle	\$ (150)	\$ (337)	\$ (1,583)	\$ 2,101	\$ (198)	\$ 191	\$ 156	\$ 80	\$ 59	\$ 30
Add:										
Loss (gain) on fair value of preferred stock warrant liabilities	271	340	1,395	(2,180)	-	-	-	-	-	-
Write off of debt issuance costs	-	-	-	-	476	-	-	-	-	-
RF Magic other income (expense), net (pre-acquisition)	(180)	(209)	-	-	-	-	-	-	-	-
Non-GAAP other income (expense), net and cumulative effect of change in accounting principle	<u>\$ (59)</u>	<u>\$ (206)</u>	<u>\$ (188)</u>	<u>\$ (79)</u>	<u>\$ 278</u>	<u>\$ 191</u>	<u>\$ 156</u>	<u>\$ 80</u>	<u>\$ 59</u>	<u>\$ 30</u>
INCOME TAX PROVISION (BENEFIT):										
GAAP income tax provision (benefit)	\$ -	\$ -	\$ -	\$ 44	\$ 154	\$ (72)	\$ 37	\$ (168)	\$ 17	\$ 74
Add: RF Magic income tax provision (pre-acquisition)	21	9	-	-	-	-	-	-	-	-
Non-GAAP income tax provision (benefit)	<u>\$ 21</u>	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ 44</u>	<u>\$ 154</u>	<u>\$ (72)</u>	<u>\$ 37</u>	<u>\$ (168)</u>	<u>\$ 17</u>	<u>\$ 74</u>
RESEARCH AND DEVELOPMENT EXPENSE:										
GAAP research and development	\$ 4,190	\$ 6,699	\$ 11,923	\$ 12,423	\$ 13,313	\$ 15,678	\$ 13,902	\$ 12,876	\$ 13,323	\$ 10,102
Add: RF Magic non-GAAP research and development (pre-acquisition) (a)	3,241	3,485	-	-	-	-	-	-	-	-
Less: Vativ retention bonus	-	-	-	-	-	648	-	-	-	-
Less: stock-based compensation expense	53	397	1,476	1,215	1,758	1,829	1,834	1,627	1,522	996
Non-GAAP research and development	<u>\$ 7,378</u>	<u>\$ 9,787</u>	<u>\$ 10,447</u>	<u>\$ 11,208</u>	<u>\$ 11,555</u>	<u>\$ 13,201</u>	<u>\$ 12,068</u>	<u>\$ 11,249</u>	<u>\$ 11,801</u>	<u>\$ 9,106</u>
SALES AND MARKETING EXPENSE:										
GAAP sales and marketing	\$ 1,500	\$ 1,859	\$ 3,283	\$ 3,706	\$ 4,144	\$ 4,455	\$ 3,991	\$ 3,672	\$ 3,637	\$ 3,395
Add: RF Magic non-GAAP sales and marketing (pre-acquisition) (a)	1,157	1,252	-	-	-	-	-	-	-	-
Less: Vativ retention bonus	-	-	-	-	-	50	-	-	-	-
Less: stock-based compensation expense	65	145	475	489	623	611	647	453	368	326
Non-GAAP sales and marketing	<u>\$ 2,592</u>	<u>\$ 2,966</u>	<u>\$ 2,808</u>	<u>\$ 3,217</u>	<u>\$ 3,521</u>	<u>\$ 3,794</u>	<u>\$ 3,344</u>	<u>\$ 3,219</u>	<u>\$ 3,269</u>	<u>\$ 3,069</u>
GENERAL AND ADMINISTRATIVE EXPENSE:										
GAAP general and administrative	\$ 767	\$ 1,631	\$ 2,706	\$ 3,581	\$ 3,523	\$ 3,541	\$ 2,798	\$ 2,890	\$ 2,689	\$ 2,712
Add: RF Magic non-GAAP general and administrative (pre-acquisition) (a)	994	1,000	-	-	-	-	-	-	-	-
Less: stock-based compensation expense	22	186	918	918	1,197	868	914	875	902	853
Non-GAAP general and administrative	<u>\$ 1,739</u>	<u>\$ 2,445</u>	<u>\$ 1,788</u>	<u>\$ 2,663</u>	<u>\$ 2,326</u>	<u>\$ 2,673</u>	<u>\$ 1,884</u>	<u>\$ 2,015</u>	<u>\$ 1,787</u>	<u>\$ 1,859</u>