

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 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. 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.

	2009				2010			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
	(unaudited)				(unaudited)			
NET REVENUES:	\$ 24,123	\$ 26,146	\$ 30,958	\$ 35,078	\$ 37,451	\$ 40,680	\$ 61,310	\$ 70,796
COST OF NET REVENUES:								
GAAP cost of net revenues	\$ 11,904	13,201	15,332	16,962	\$ 17,701	\$ 18,831	\$ 28,774	\$ 32,764
Less:								
Stock-based compensation expense	16	45	41	36	63	89	104	128
Amortization of developed technology	406	405	406	405	406	405	406	406
Non-GAAP cost of net revenues	<u>\$ 11,482</u>	<u>\$ 12,751</u>	<u>\$ 14,885</u>	<u>\$ 16,521</u>	<u>\$ 17,232</u>	<u>\$ 18,337</u>	<u>\$ 28,264</u>	<u>\$ 32,230</u>
GROSS PROFIT:								
GAAP gross profit	\$ 12,219	\$ 12,945	\$ 15,626	\$ 18,116	\$ 19,750	\$ 21,849	\$ 32,536	\$ 38,032
Less:								
Stock-based compensation expense	16	45	41	36	63	89	104	128
Amortization of developed technology	406	405	406	405	406	405	406	406
Non-GAAP gross profit	<u>\$ 12,641</u>	<u>\$ 13,395</u>	<u>\$ 16,073</u>	<u>\$ 18,557</u>	<u>\$ 20,219</u>	<u>\$ 22,343</u>	<u>\$ 33,046</u>	<u>\$ 38,566</u>
<i>GAAP gross margin</i>	50.7%	49.5%	50.5%	51.6%	52.7%	53.7%	53.1%	53.7%
<i>Non-GAAP gross margin</i>	52.4%	51.2%	51.9%	52.9%	54.0%	54.9%	53.9%	54.5%
OPERATING EXPENSES:								
GAAP operating expenses	\$ 20,997	\$ 17,188	\$ 16,881	\$ 17,315	\$ 18,016	\$ 18,749	\$ 21,262	\$ 21,023
Less:								
Stock-based compensation expense	2,792	2,175	2,157	2,105	2,129	2,468	2,679	2,810
Amortization of intangibles	16	-	-	-	-	-	-	-
Restructuring charges (benefit)	1,124	979	70	-	-	-	-	-
Impairment of goodwill and intangible assets	208	-	-	-	-	-	-	-
Non-GAAP operating expenses	<u>\$ 16,857</u>	<u>\$ 14,034</u>	<u>\$ 14,654</u>	<u>\$ 15,210</u>	<u>\$ 15,887</u>	<u>\$ 16,281</u>	<u>\$ 18,583</u>	<u>\$ 18,213</u>
OTHER (EXPENSE) INCOME, NET:	\$ 59	\$ 30	\$ 26	\$ 27	\$ 25	\$ 20	\$ 33	\$ 63
INCOME TAX PROVISION (BENEFIT):								
GAAP income tax provision (benefit)	\$ 17	\$ 74	\$ 9	\$ (193)	\$ 1	\$ 28	\$ 36	\$ (31,511)
Add: Benefit related to the release of deferred tax asset valuation allowance	-	-	-	-	-	-	-	31,591
Non-GAAP income tax provision (benefit)	<u>\$ 17</u>	<u>\$ 74</u>	<u>\$ 9</u>	<u>\$ (193)</u>	<u>\$ 1</u>	<u>\$ 28</u>	<u>\$ 36</u>	<u>\$ 80</u>
RESEARCH AND DEVELOPMENT EXPENSE:								
GAAP research and development	\$ 13,323	\$ 10,102	\$ 10,824	\$ 10,912	\$ 11,538	\$ 11,746	\$ 12,410	\$ 13,023
Less: stock-based compensation expense	1,522	996	1,006	1,028	1,079	1,211	1,362	1,397
Non-GAAP research and development	<u>\$ 11,801</u>	<u>\$ 9,106</u>	<u>\$ 9,818</u>	<u>\$ 9,884</u>	<u>\$ 10,459</u>	<u>\$ 10,535</u>	<u>\$ 11,048</u>	<u>\$ 11,626</u>
SALES AND MARKETING EXPENSE:								
GAAP sales and marketing	\$ 3,637	\$ 3,395	\$ 3,345	\$ 3,578	\$ 3,778	\$ 3,991	\$ 5,054	\$ 4,376
Less: stock-based compensation expense	368	326	354	353	312	382	419	445
Non-GAAP sales and marketing	<u>\$ 3,269</u>	<u>\$ 3,069</u>	<u>\$ 2,991</u>	<u>\$ 3,225</u>	<u>\$ 3,466</u>	<u>\$ 3,609</u>	<u>\$ 4,635</u>	<u>\$ 3,931</u>
GENERAL AND ADMINISTRATIVE EXPENSE:								
GAAP general and administrative	\$ 2,689	\$ 2,712	\$ 2,642	\$ 2,825	\$ 2,700	\$ 3,012	\$ 3,798	\$ 3,624
Less: stock-based compensation expense	902	853	797	724	738	875	898	968
Non-GAAP general and administrative	<u>\$ 1,787</u>	<u>\$ 1,859</u>	<u>\$ 1,845</u>	<u>\$ 2,101</u>	<u>\$ 1,962</u>	<u>\$ 2,137</u>	<u>\$ 2,900</u>	<u>\$ 2,656</u>