

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				2011	
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2
	(unaudited)				(unaudited)				(unaudited)	
NET REVENUES:	\$ 24,123	\$ 26,146	\$ 30,958	\$ 35,078	\$ 37,451	\$ 40,680	\$ 61,310	\$ 70,796	\$ 71,521	\$ 61,473
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	\$ 31,939	\$ 27,646
Less:										
Stock-based compensation expense	16	45	41	36	63	89	104	128	129	118
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>	<u>\$ 31,810</u>	<u>\$ 27,528</u>
GROSS PROFIT:										
GAAP gross profit	\$ 12,219	\$ 12,945	\$ 15,626	\$ 18,116	\$ 19,750	\$ 21,849	\$ 32,536	\$ 38,032	\$ 39,582	\$ 33,827
Less:										
Stock-based compensation expense	16	45	41	36	63	89	104	128	129	118
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>	<u>\$ 39,711</u>	<u>\$ 33,945</u>
 <i>GAAP gross margin</i>	 50.7%	 49.5%	 50.5%	 51.6%	 52.7%	 53.7%	 53.1%	 53.7%	 55.3%	 55.0%
<i>Non-GAAP gross margin</i>	<u>52.4%</u>	<u>51.2%</u>	<u>51.9%</u>	<u>52.9%</u>	<u>54.0%</u>	<u>54.9%</u>	<u>53.9%</u>	<u>54.5%</u>	<u>55.5%</u>	<u>55.2%</u>
OPERATING EXPENSES:										
GAAP operating expenses	\$ 20,997	\$ 17,188	\$ 16,881	\$ 17,315	\$ 18,016	\$ 18,749	\$ 21,262	\$ 21,023	\$ 21,658	\$ 21,966
Less:										
Stock-based compensation expense	2,792	2,175	2,157	2,105	2,129	2,468	2,679	2,810	2,825	3,228
Amortization of intangibles	16	-	-	-	-	-	-	-	-	-
Restructuring charges	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>	<u>\$ 18,833</u>	<u>\$ 18,738</u>
OTHER (EXPENSE) INCOME, NET:	\$ 59	\$ 30	\$ 26	\$ 27	\$ 25	\$ 20	\$ 33	\$ 63	\$ 189	\$ 213
INCOME TAX PROVISION (BENEFIT):										
GAAP income tax provision (benefit)	\$ 17	\$ 74	\$ 9	\$ (193)	\$ 1	\$ 28	\$ 36	\$ (31,511)	\$ 6,258	\$ 4,318
Add:										
Benefit related to the release of deferred tax asset valuation allowance	-	-	-	-	-	-	-	31,591	-	-
Income tax effects of pre-tax adjustments	-	-	-	-	-	-	-	-	1,034	1,171
Less:										
Cash tax difference (1)	-	-	-	-	-	-	-	-	5,817	5,137
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>	<u>\$ 1,475</u>	<u>\$ 352</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	\$ 13,149	\$ 14,148
Less: stock-based compensation expense	1,522	996	1,006	1,028	1,079	1,211	1,362	1,397	1,433	1,631
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>	<u>\$ 11,716</u>	<u>\$ 12,517</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	\$ 4,820	\$ 4,303
Less: stock-based compensation expense	368	326	354	353	312	382	419	445	428	500
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>	<u>\$ 4,392</u>	<u>\$ 3,803</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	\$ 3,689	\$ 3,515
Less: stock-based compensation expense	902	853	797	724	738	875	898	968	964	1,097
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>	<u>\$ 2,725</u>	<u>\$ 2,418</u>

(1) The Company's non-GAAP net income per share is calculated using the cash tax rate of 2% and 5% for the three and six month periods ended June 30, 2011, respectively. The estimated cash tax rate is the estimated tax payable on the Company's tax returns as a percentage of estimated annual non-GAAP pre-tax net income. The Company uses an estimated cash tax rate to adjust for the historical variation in the effective book tax rate associated with the reversal of valuation allowances, the utilization of research and development tax credits, and the utilization of loss carryforwards which currently have an overall effect of reducing taxes payable. The Company believes that the cash tax rate provides a more transparent view of the Company's operating results. The Company's effective tax rate used for the purposes of calculating GAAP net income for the three and six month periods ended June 30, 2011 was approximately 36% and 35%, respectively.