

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.

	2010				2011				2012
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
	(unaudited)				(unaudited)				(unaudited)
NET REVENUES:	\$ 37,451	\$ 40,680	\$ 61,310	\$ 70,796	\$ 71,521	\$ 61,473	\$ 51,465	\$ 56,169	\$ 59,103
COST OF NET REVENUES:									
GAAP cost of net revenues	\$ 17,701	\$ 18,831	\$ 28,774	\$ 32,764	\$ 31,939	\$ 27,646	\$ 22,996	\$ 25,341	\$ 25,911
Less:									
Stock-based compensation expense	63	89	104	128	129	118	143	167	171
Amortization of developed technology	406	405	406	406	-	-	-	-	-
Non-GAAP cost of net revenues	\$ 17,232	\$ 18,337	\$ 28,264	\$ 32,230	\$ 31,810	\$ 27,528	\$ 22,853	\$ 25,174	\$ 25,740
GROSS PROFIT:									
GAAP gross profit	\$ 19,750	\$ 21,849	\$ 32,536	\$ 38,032	\$ 39,582	\$ 33,827	\$ 28,469	\$ 30,828	\$ 33,192
Less:									
Stock-based compensation expense	63	89	104	128	129	118	143	167	171
Amortization of developed technology	406	405	406	406	-	-	-	-	-
Non-GAAP gross profit	\$ 20,219	\$ 22,343	\$ 33,046	\$ 38,566	\$ 39,711	\$ 33,945	\$ 28,612	\$ 30,995	\$ 33,363
GAAP gross margin	52.7%	53.7%	53.1%	53.7%	55.3%	55.0%	55.3%	54.9%	56.2%
Non-GAAP gross margin	54.0%	54.9%	53.9%	54.5%	55.5%	55.2%	55.6%	55.2%	56.4%
OPERATING EXPENSES:									
GAAP operating expenses	\$ 18,016	\$ 18,749	\$ 21,262	\$ 21,023	\$ 21,658	\$ 21,966	\$ 22,154	\$ 26,424	\$ 25,806
Less:									
Stock-based compensation expense	2,129	2,468	2,679	2,810	2,825	3,228	2,983	3,154	2,971
Transaction and due diligence costs	-	-	-	-	-	-	-	1,415	1,547
Non-GAAP operating expenses	\$ 15,887	\$ 16,281	\$ 18,583	\$ 18,213	\$ 18,833	\$ 18,738	\$ 19,171	\$ 21,855	\$ 21,288
LOSS RELATED TO EQUITY METHOD INVESTMENT:									
GAAP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (91)	\$ (700)	\$ (832)
Add:									
Loss related to equity method investment	-	-	-	-	-	-	91	700	832
Non-GAAP loss related to equity method investment	-	-	-	-	-	-	-	-	-
OTHER INCOME, NET:	\$ 25	\$ 20	\$ 33	\$ 63	\$ 189	\$ 213	\$ 224	\$ 278	\$ 290
INCOME TAX PROVISION (BENEFIT):									
GAAP income tax provision (benefit)	\$ 1	\$ 28	\$ 36	\$ (31,511)	\$ 6,258	\$ 4,318	\$ 1,803	\$ 1,674	\$ 2,951
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	1,126	1,903	1,932
Less:									
Cash tax difference (1)	-	-	-	-	5,817	5,137	3,653	4,368	3,156
Non-GAAP income tax provision (benefit)	\$ 1	\$ 28	\$ 36	\$ 80	\$ 1,475	\$ 352	\$ (724)	\$ (791)	\$ 1,727
RESEARCH AND DEVELOPMENT EXPENSE:									
GAAP research and development	\$ 11,538	\$ 11,746	\$ 12,410	\$ 13,023	\$ 13,149	\$ 14,148	\$ 15,142	\$ 17,626	\$ 15,471
Less: stock-based compensation expense	1,079	1,211	1,362	1,397	1,433	1,631	1,533	1,675	1,630
Non-GAAP research and development	\$ 10,459	\$ 10,535	\$ 11,048	\$ 11,626	\$ 11,716	\$ 12,517	\$ 13,609	\$ 15,951	\$ 13,841
SALES AND MARKETING EXPENSE:									
GAAP sales and marketing	\$ 3,778	\$ 3,991	\$ 5,054	\$ 4,376	\$ 4,820	\$ 4,303	\$ 4,073	\$ 4,373	\$ 5,045
Less: stock-based compensation expense	312	382	419	445	428	500	517	541	419
Non-GAAP sales and marketing	\$ 3,466	\$ 3,609	\$ 4,635	\$ 3,931	\$ 4,392	\$ 3,803	\$ 3,556	\$ 3,832	\$ 4,626
GENERAL AND ADMINISTRATIVE EXPENSE:									
GAAP general and administrative	\$ 2,700	\$ 3,012	\$ 3,798	\$ 3,624	\$ 3,689	\$ 3,515	\$ 2,939	\$ 4,425	\$ 5,290
Less:									
Due diligence-related costs	-	-	-	-	-	-	-	1,415	1,547
Stock-based compensation expense	738	875	898	968	964	1,097	933	938	922
Non-GAAP general and administrative	\$ 1,962	\$ 2,137	\$ 2,900	\$ 2,656	\$ 2,725	\$ 2,418	\$ 2,006	\$ 2,072	\$ 2,821

(1) The Company's non-GAAP net income per share is calculated using the cash tax rate of 14%, (8%) and 7% for the three month periods ended March 31, 2012, December 31, 2011 and March 31, 2011, respectively. The estimated cash tax rate is the estimated tax payable on the Company's projected 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 month periods ended March 31, 2012, December 31, 2011 and March 31, 2011 was approximately 43%, 42% and 35%, respectively.