

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	Q2	Q3
	(unaudited)				(unaudited)				(unaudited)		
NET REVENUES:	\$ 37,451	\$ 40,680	\$ 61,310	\$ 70,796	\$ 71,521	\$ 61,473	\$ 51,465	\$ 56,169	\$ 59,103	\$ 83,052	\$ 89,825
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	\$ 40,197	\$ 45,778
Less:											
Stock-based compensation expense	63	89	104	128	129	118	143	167	171	179	217
Amortization of developed technology	406	405	406	406	-	-	-	-	-	1,777	2,025
Non-GAAP cost of net revenues	\$ 17,232	\$ 18,337	\$ 28,264	\$ 32,230	\$ 31,810	\$ 27,528	\$ 22,853	\$ 25,174	\$ 25,740	\$ 38,241	\$ 43,536
GROSS PROFIT:											
GAAP gross profit	\$ 19,750	\$ 21,849	\$ 32,536	\$ 38,032	\$ 39,582	\$ 33,827	\$ 28,469	\$ 30,828	\$ 33,192	\$ 42,855	\$ 44,047
Less:											
Stock-based compensation expense	63	89	104	128	129	118	143	167	171	179	217
Amortization of developed technology	406	405	406	406	-	-	-	-	-	1,777	2,025
Non-GAAP gross profit	\$ 20,219	\$ 22,343	\$ 33,046	\$ 38,566	\$ 39,711	\$ 33,945	\$ 28,612	\$ 30,995	\$ 33,363	\$ 44,811	\$ 46,289
GAAP gross margin	52.7%	53.7%	53.1%	53.7%	55.3%	55.0%	55.3%	54.9%	56.2%	51.6%	49.0%
Non-GAAP gross margin	54.0%	54.9%	53.9%	54.5%	55.5%	55.2%	55.6%	55.2%	56.4%	54.0%	51.5%
OPERATING EXPENSES:											
GAAP operating expenses	\$ 18,016	\$ 18,749	\$ 21,262	\$ 21,023	\$ 21,658	\$ 21,966	\$ 22,154	\$ 26,424	\$ 25,806	\$ 41,945	\$ 41,686
Less:											
Stock-based compensation expense	2,129	2,468	2,679	2,810	2,825	3,228	2,983	3,154	2,971	3,456	3,988
Amortization of intangibles	-	-	-	-	-	-	-	-	-	715	930
Transaction and due diligence costs	-	-	-	-	-	-	-	1,415	1,547	2,754	183
Non-GAAP operating expenses	\$ 15,887	\$ 16,281	\$ 18,583	\$ 18,213	\$ 18,833	\$ 18,738	\$ 19,171	\$ 21,855	\$ 21,288	\$ 35,020	\$ 36,585
LOSS RELATED TO EQUITY METHOD INVESTMENT:											
GAAP	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (91)	\$ (700)	\$ (832)	\$ (905)	\$ (799)
Add:											
Loss related to equity method investment	-	-	-	-	-	-	91	700	832	905	799
Non-GAAP loss related to equity method investment	-	-	-	-	-	-	-	-	-	-	-
OTHER INCOME, NET:											
GAAP	\$ 25	\$ 20	\$ 33	\$ 63	\$ 189	\$ 213	\$ 224	\$ 278	\$ 290	\$ 246	\$ 31
Add:											
Adjustments to the fair value of PLX acquisition contingent consideration	-	-	-	-	-	-	-	-	-	-	230
Non-GAAP Other Income, Net	25	20	33	63	189	213	224	278	290	246	261
INCOME TAX PROVISION (BENEFIT):											
GAAP income tax provision (benefit)	\$ 1	\$ 28	\$ 36	\$ (31,511)	\$ 6,258	\$ 4,318	\$ 1,803	\$ 1,674	\$ 2,951	\$ 78	\$ 1,185
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	3,425	2,930
Less:											
Cash tax difference (1)	-	-	-	-	5,817	5,137	3,653	4,368	3,156	1,301	1,899
Non-GAAP income tax provision (benefit)	\$ 1	\$ 28	\$ 36	\$ 80	\$ 1,475	\$ 352	\$ (724)	\$ (791)	\$ 1,727	\$ 2,202	\$ 2,216
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	\$ 25,671	\$ 28,072
Less: stock-based compensation expense	1,079	1,211	1,362	1,397	1,433	1,631	1,533	1,675	1,630	1,894	2,030
Non-GAAP research and development	\$ 10,459	\$ 10,535	\$ 11,048	\$ 11,626	\$ 11,716	\$ 12,517	\$ 13,609	\$ 15,951	\$ 13,841	\$ 23,777	\$ 26,042
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	\$ 6,975	\$ 6,966
Less: stock-based compensation expense	312	382	419	445	428	500	517	541	419	585	675
Non-GAAP sales and marketing	\$ 3,466	\$ 3,609	\$ 4,635	\$ 3,931	\$ 4,392	\$ 3,803	\$ 3,556	\$ 3,832	\$ 4,626	\$ 6,390	\$ 6,291
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	\$ 8,584	\$ 5,718
Less:											
Due diligence-related costs	-	-	-	-	-	-	-	1,415	1,547	2,754	183
Stock-based compensation expense	738	875	898	968	964	1,097	933	938	922	977	1,283
Non-GAAP general and administrative	\$ 1,962	\$ 2,137	\$ 2,900	\$ 2,656	\$ 2,725	\$ 2,418	\$ 2,006	\$ 2,072	\$ 2,821	\$ 4,853	\$ 4,252

(1) The Company's non-GAAP net income per share is calculated using the cash tax rate of 22%, 22%, and (7%) for the three month periods ended September 30, 2012, June 30, 2012, and September 30, 2011, respectively. The Company's non-GAAP net income per share is calculated using the cash tax rate of 19% and 2% for the nine month periods ended September 30, 2012, and 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 its operating results. The Company's effective tax rate used for the purposes of calculating GAAP net income for the three month periods ended September 30, 2012, June 30, 2012, and September 30, 2011 was approximately 74%, 31% and 28%, respectively. The Company's effective tax rate used for the purposes of calculating GAAP net income for the nine month periods ended September 30, 2012 and 2011 was approximately 49% and 34%, respectively.