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 as an indication of Entropic's future performance.

	2010								2011							٦Г	2012							
	_	Q1		Q2		Q3		Q4	_	Q1		Q2		Q3	Q4		Q1		c	2		Q3		Q4
				(unaud	dited)							(unaud							-	(unaud				
NET REVENUES:	\$	37,451	\$	40,680		61,310	\$	70,796	\$	71,521	\$	61,473		51,465	\$ 56,16	9 :	\$ 5	9,103	\$	33,052		89,825	\$	89,698
COST OF NET REVENUES:																								
GAAP cost of net revenues Less:	\$	17,701	\$	18,831	\$	28,774	\$	32,764	\$	31,939	\$	27,646	\$	22,996	\$ 25,34	1 :	\$ 2	5,911	\$	40,197	\$	45,778	\$	45,789
Stock-based compensation expense		63		89		104		128		129		118		143	16	7		171		179		217		261
Amortization of developed technology Non-GAAP cost of net revenues	\$	406 17,232	\$	405 18,337	\$	406 28,264	\$	406 32,230	\$	31,810	\$	27,528	\$	22,853	\$ 25,17	4	\$ 2	5,740	\$	1,777 38,241	\$	2,025 43,536	\$	2,025 43,503
GROSS PROFIT:																								
GAAP gross profit Less:	\$	19,750	\$	21,849	\$	32,536	\$	38,032	\$	39,582	\$	33,827	\$	28,469	\$ 30,82	3	\$ 3	3,192	\$	42,855	\$	44,047	\$	43,909
Stock-based compensation expense		63		89		104		128		129		118		143	16	7		171		179		217		261
Amortization of developed technology Non-GAAP gross profit	\$	406 20,219	\$	405 22,343	\$	406 33,046	\$	406 38,566	\$	39,711	\$	33,945	\$	28,612	\$ 30,99	5	\$ 3	3,363	\$	1,777 44,811	\$	2,025 46,289	\$	2,025 46,195
											-													
GAAP gross margin Non-GAAP gross margin		52.7% 54.0%		53.7% 54.9%		53.1% 53.9%		53.7% 54.5%		55.3% 55.5%		55.0% 55.2%		55.3% 55.6%	54.9 55.2			56.2% 56.4%		51.6% 54.0%		49.0% 51.5%		49.0% 51.5%
OPERATING EXPENSES:																								
GAAP operating expenses Less:	\$	18,016	\$	18,749	\$	21,262	\$	21,023	\$	21,658	\$	21,966	\$	22,154	\$ 26,42	4 :	\$ 2	5,806	\$	41,945	\$	41,686	\$	43,175
Stock-based compensation expense		2,129		2,468		2,679		2,810		2,825		3,228		2,983	3,15	4		2,971		3,456		3,988		3,574
Amortization of intangibles Transaction & integration costs		-				-		-		-		-		-	1,41	- 5		- 1,547		715 2,754		930 183		930 61
Restructuring charges (2)		45.007	_	40.004	_	40.500	_	40.040	_	40.000	_	40.720	_						_		_		_	897
Non-GAAP operating expenses	<u>\$</u>	15,887	\$	16,281	\$	18,583	\$	18,213	\$	18,833	\$	18,738	\$	19,171	\$ 21,85	2	\$ <u>2</u>	1,288	\$	35,020	\$	36,585	\$	37,713
LOSS RELATED TO EQUITY METHOD INVESTMENT GAAP	NT: \$	_	\$		\$	_	\$	_	s		•		•	(91)	\$ (70	D) :	•	(832)	•	(905)	•	(799)	•	(779
Add:	•		•		•		•		•		•		•		•	•	•	` '	•	. ,	•		•	
Loss related to equity method investment Non-GAAP loss related to equity method	-		_	<u>-</u>				-						91	70	2 .		832		905		799		779
investment			_				_		_		_													
OTHER INCOME, NET:																								
GAAP Add:	\$	25	\$	20	\$	33	\$	63	\$	189	\$	213	\$	224	\$ 27	3 :	\$	290	\$	246	\$	31	\$	34
Adjustments to the fair value of PLX acquisition contingent consideration																						230		201
Non-GAAP other income, net		25	_	20		33		63	_	189		213		224	27	<u> </u>		290		246		261		235
INCOME TAX PROVISION (BENEFIT):																								
GAAP income tax provision (benefit)	\$	1	\$	28	\$	36	\$	(31,511)	\$	6,258	\$	4,318	\$	1,803	\$ 1,67	4 :	\$	2,951	\$	78	\$	1,185	\$	(57)
Add: Benefit related to the release of deferred tax																								
asset valuation allowance Income tax effects of pre-tax adjustments		-		-		-		31,591		1,034		- 1,171		- 1,126	1,90	- 3		1,932		3,425		2,930		- 2,741
Less: Cash tax difference (1)										5,817		5,137		3,653	4,36	2		3,156		1,301		1,899		1,534
Non-GAAP income tax provision (benefit)	\$	1	\$	28	\$	36	\$	80	\$	1,475	\$	352	\$		\$ (79		\$	1,727	\$	2,202	\$		\$	1,150
RESEARCH AND DEVELOPMENT EXPENSE:																								
GAAP research and development Less: stock-based compensation expense	\$	11,538 1,079	\$	11,746 1,211	\$	12,410 1,362	\$	13,023 1,397	\$	13,149 1,433	\$	14,148 1,631	\$	15,142 1,533	\$ 17,62 1,67			5,471 1,630	\$	2 5,671 1,894	\$	28,072 2,030	\$	29,139 1,874
Non-GAAP research and development	\$	10,459	\$	10,535	\$	11,048	\$	11,626	\$		\$	12,517	\$		\$ 15,95			3,841	\$	23,777	\$		\$	27,265
SALES AND MARKETING EXPENSE:																								
GAAP sales and marketing	\$	3,778	\$	3,991	\$	5,054	\$	4,376	\$	4,820	\$	4,303	\$	4,073			\$	5,045	\$	6,975	\$	6,966	\$	6,327
Less: stock-based compensation expense Non-GAAP sales and marketing	\$	312 3,466	\$	382 3,609	\$	419 4,635	\$	3,931	\$	428 4,392	\$	500 3,803	\$	517 3,556	54 \$ 3,83		\$	419 4,626	\$	585 6,390	\$	675 6,291	\$	609 5,718
GENERAL AND ADMINISTRATIVE EXPENSE:																								
GAAP general and administrative	\$	2,700	\$	3,012	\$	3,798	\$	3,624	\$	3,689	\$	3,515	\$	2,939	\$ 4,42	5 :	\$	5,290	\$	8,584	\$	5,718	\$	5,882
Less: Transaction & integration costs		-		-		-		-		-		-		-	1,41	5		1,547		2,754		183		61
Stock-based compensation expense	_	738	_	875	_	898	_	968	_	964	_	1,097	_	933	93	3		922		977	_	1,283		1,091
Non-GAAP general and administrative	\$	1,962	\$	2,137	\$	2,900	\$	2,656	\$	2,725	\$	2,418	\$	2,006	\$ 2,07	2 :	\$	2,821	\$	4,853	\$	4,252	\$	4,730

⁽¹⁾ The Company's non-GAAP net income per share is calculated using the cash tax rate of 13%, 22%, and (8%) for the three month periods ended December 31, 2012, September 30, 2012, and December 31, 2011, respectively. The Company's non-GAAP net income per share is calculated using the cash tax rate of 18% and 1% for the years ended December 31, 2012, and 2011, respectively. The estimated cash tax rate is the estimated tax payable on the Company sended December 31, 2012, and 2011, respectively. The estimated cash tax rate is the estimated as a percentage of the stimated rate of 18% and 1% 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 December 31, 2012, September 30, 2012, and December 31, 2011 and as approximately 518%, 74%, and 42%, respectively. The Company's effective tax rate used for the purposes of calculating GAAP net income for the years ended December 31, 2012, September 30, 2012, and December 31, 2012, september 31, 2012, september 30, 2014, and 2011 was approximately 48% and 35%, respectively.

⁽²⁾ In November, 2012, we incurred a restructuring charge of \$0.9 million pursuant to a plan to rebalance our operations in an attempt to leverage synergies from our acquisitions. This plan resulted in a reduction of our personnel by 40 employees or approximately 6% of our workforce.