ENTROPIC COMMUNICATIONS INC
Form 424B4
December 07, 2007

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Registration No. 333-144899

Prospectus

8,000,000 Shares

Common Stock

Prior to this offering, there has been no public market for our common stock. The initial public offering price of the common stock is $6.00 per share. Our common stock has been approved for listing on the Nasdaq Global Market under the symbol ENTR. We are selling 8,000,000 shares of our common stock.

The underwriters have an option to purchase from the selling stockholders, which include our chief executive officer and certain other members of our management, up to 1,200,000 additional shares of common stock to cover over-allotments. We will not receive any of the proceeds from the shares of common stock sold by the selling stockholders.

Investing in our common stock involves risks. See Risk Factors on page 11.

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Issuer (before expenses)
Per Share	$ 6.00	$ 0.42	$ 5.58
Total	$ 48,000,000	$ 3,360,000	$ 44,640,000

Delivery of the shares of common stock will be made on or about December 12, 2007.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CREDIT SUISSE **LEHMAN BROTHERS**

THOMAS WEISEL PARTNERS LLC

JMP SECURITIES

THINKEQUITY PARTNERS LLC

December 6, 2007

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You should rely only on the information contained in this prospectus and any free writing prospectus prepared by or on behalf of us or to which we have referred you. We have not authorized anyone to provide you with information that is different. This document may only be used where it is legal to sell these securities. The information in this document may only be accurate on the date of this document.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Until December 31, 2007 (25 days after the commencement of this offering), all dealers that buy, sell or trade in our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealer s obligation to deliver a prospectus when acting as an underwriter and with respect to unsold allotments or subscriptions.

PROSPECTUS SUMMARY

This summary highlights information contained in other parts of this prospectus. Because it is only a summary, it does not contain all of the information that you should consider before investing in shares of our common stock and it is qualified in its entirety by, and should be read in conjunction with, the more detailed information appearing elsewhere in this prospectus. You should read the entire prospectus carefully, especially Risk Factors and the consolidated financial statements and notes to these financial statements contained in this prospectus, before deciding to buy shares of our common stock.

Our Company

We are a leading fabless semiconductor company that designs, develops and markets systems solutions to enable connected home entertainment. Our technologies significantly change the way high-definition television-quality video, or HD video, and other multimedia content such as movies, music, games and photos are brought into and delivered throughout the home.

We are a pioneer of key technologies that enable connected home networking of digital entertainment over existing coaxial cables. We are a founding member of the Multimedia over Coax Alliance, or MoCA, a global home networking consortium that sets standards for the distribution of video and other multimedia entertainment over coaxial cable. Our products include:

- home networking chipsets based on the MoCA standard;
- high-speed broadband access chipsets;
- integrated circuits that simplify and enhance digital broadcast satellite services; and
- silicon television tuner integrated circuits.

Our products allow telecommunications carriers, cable multiple service operators and digital broadcast satellite service providers, which we collectively refer to as service providers, to enhance and expand their service offerings and reduce deployment costs in an increasingly competitive environment.

Our home networking solutions capitalize on the worldwide conversion of multimedia content, including video, from analog to digital. Multimedia content is now easy to store on digital video recorders, or DVRs, gaming consoles, DVD recorders and personal computers. The ability to store this content on various devices has created islands of digital entertainment within the home. Our products bridge these islands and allow consumers to access their multimedia content throughout the home. Today, we are the only high-volume supplier of MoCA-compliant chipsets, which can be embedded in a wide variety of consumer electronic devices. Service providers can employ our solutions to offer consumer applications such as multi-room DVR, multi-room and online gaming, personal computer-to-television personal content sharing, and streaming of downloaded movies stored on a personal computer to a television.

We have extensive knowledge and capabilities in key aspects of our business, such as video communications, networking algorithms and protocols, system-on-a-chip design, embedded software, mixed signal and radio frequency integrated circuit design, and communications and radio frequency systems, which we refer to as our core competencies. We use our considerable experience with service provider-based deployments to create solutions that address the complex requirements associated with delivering multiple streams of HD video into and throughout the home while seamlessly coexisting with video, voice and data services that are using the same coaxial cable infrastructure.

We generate the majority of our revenues from sales of our products to original design manufacturers, or ODMs, and original equipment manufacturers, or OEMs, that provide customer premises equipment to service providers. While we did not launch our home networking products in significant volume until 2006, during 2006 and the nine months ended September 30, 2007, Entropic and its recently acquired subsidiary RF Magic, Inc.

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together derived revenues from more than 80 customers globally, including Actiontec Electronics, Inc., Jabil Circuit, Inc. and Motorola, Inc. We have also established relationships with leading service providers including EchoStar Satellite L.L.C., Jupiter Telecommunications Co., Ltd., or J:COM, and Verizon Communications Inc. We currently rely on sales of products that are incorporated by our customers into products purchased by Verizon and EchoStar for substantially all of our revenues. For the nine months ended September 30, 2007, Entropic and RF Magic generated pro forma revenues of $97.4 million and incurred pro forma losses of $14.4 million.

Industry Background

Intense competition among service providers seeking to maximize revenues is driving a revolution in the delivery of video and other multimedia content into and throughout the home. Service providers are making significant infrastructure investments to differentiate their offerings, increase average revenue per user, increase subscriber growth and reduce subscriber turnover. Several favorable trends such as the increasing availability of digital multimedia content and consumer applications and the proliferation of digital media devices within the home are contributing to the increasing revenue opportunity for service providers.

Service providers and OEMs have identified a tremendous opportunity to seamlessly network the islands of stored multimedia content and enable the sharing of such content across devices and between rooms throughout the home. According to iSuppli Corporation, the number of network-enabled devices is expected to increase from 321 million in 2007 to 760 million in 2011, representing a compound annual growth rate of approximately 24%. To address this opportunity, service providers are introducing new customer premises equipment and service offerings. By providing customer premises equipment, service providers are able to easily introduce new services, simplify and enhance the user experience, and provide content security and service reliability.

The stringent communications requirements associated with high-quality HD video and other multimedia content present a significant obstacle for service providers today. In response, service providers require technology solutions that enable the distribution of such content into and throughout the home while maintaining the requisite high-quality standards demanded by subscribers. For any such technology solution to succeed, we believe it must satisfy the following requirements:

- high bandwidth, reliability and full quality of service, or QoS, for HD video;
- co-existence with other services and devices;
- cost-effective deployment for service providers;
- customer ease of use and minimal maintenance; and
- consumer privacy and content security.

Our Solutions

We provide systems solutions comprised of silicon integrated circuits and associated software as a platform to enable delivery of multiple streams of HD video and other multimedia content into and throughout the home. Our products include home networking, broadband access, DBS outdoor unit and silicon television tuner solutions. Service providers currently employ our home networking solutions to offer consumer applications such as multi-room DVR, multi-room and online gaming, personal computer-to-television personal content sharing, and streaming of downloaded movies stored on a personal computer to a television. Moreover, our solutions are currently utilized to enhance a variety of service offerings, including video placeshifting, or the ability to access content from multiple locations and devices, video timeshifting, or the ability to pause, fast forward and rewind live or stored video, wireless backbone, or the ability to use in-home coaxial cables to increase the coverage of the wireless home network, and triple-play services, or bundled video, voice and broadband data services. We began offering DBS outdoor unit and silicon television tuner products as a result of our acquisition

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of RF Magic. Our solutions are currently used in consumer electronic and networking devices, including set-top boxes, broadband routers with embedded wireless home networking, optical network terminals, low-noise block converters, multi-room DVRs and residential gateways, and can potentially be used in other devices, such as digital televisions, gaming consoles, media servers and network attached storage devices.

Home Networking

Our home networking solutions target a large and rapidly growing market. According to iSuppli, the worldwide home networking silicon total available market is expected to grow from $1.1 billion in 2007 to $3.1 billion in 2011, representing a compound annual growth rate of approximately 29%. Our home networking solutions are based on the MoCA standard. MoCA-based products use existing coaxial cable to create a robust internet protocol-based network for easy sharing of HD video and other multimedia content throughout the home. We have been working on MoCA-related technology since 2001 and are presently shipping our second generation of MoCA-compliant products. Our MoCA-compliant chipsets are incorporated in the equipment being deployed by Verizon as part of its FiOS offering. We are currently the exclusive provider of chipsets that enable home networking applications such as multi-room DVR for such offering as well as connectivity between Verizon s fiber optic network termination and existing home coaxial cabling. However, other semiconductor companies may, in the future, supply competing products for the FiOS offering. We believe that our pioneering role in developing the MoCA standard and our success to date in providing these solutions position us well to continue to be the leading provider of MoCA-based connected home entertainment solutions. Our home networking solutions provide the following key benefits:

High data rates. Deliver field-tested consistent net throughput in excess of 110 megabits per second and a physical layer rate of up to 270 megabits per second.

High-quality video experience. Satisfy stringent quality of service requirements of service providers and allow distribution of multiple streams of HD video.

Ease of installation and use. Leverage existing coaxial cable infrastructure to simplify installation and enable plug-and-play implementation for consumers.

Security and reliability. Create a shielded, self-healing network that provides high levels of fault tolerance and reliability and supports service provider-based conditional access systems and encryption to protect the privacy of personal multimedia content.

Remote upgrade and diagnostics. Deploy additional service offerings and perform system diagnostics through remotely upgradeable firmware and remote diagnostics tools.

Broadband Access

Our broadband access solutions are designed to meet broadband access requirements in areas characterized by fiber optic networks that terminate within approximately one kilometer of a customer premises. In particular, our solutions allow cable multiple service operators with fiber optic deployments to offer broadband access services that are competitive with very high-speed digital subscriber line, or VDSL, services offered by telecommunications carriers. According to International Data Corporation, or IDC, worldwide broadband service subscriptions for our current target market, which consists of cable modem and fiber-to-the-home deployments, are expected to increase from 104 million in 2007 to 160 million in 2011. Our solutions use coaxial cable infrastructure to deliver last kilometer connectivity for high-speed broadband access to single-family homes and multiple dwelling units. They incorporate the same physical layer used in our home networking products and a different network-optimized media access controller technology and offer high performance with net throughput in excess of 100 megabits per second. Our high-speed broadband access solutions enable digital voice, streaming video downloads, high-speed broadband data and bundled triple-play services.

DBS Outdoor Unit

Our DBS outdoor unit solutions, which consist of our band translation switch and channel stacking switch products, target the large and growing digital broadcast satellite market. According to IMS Research, worldwide households with digital satellite free-to-air and pay-television are expected to increase from approximately 266 million in 2007 to 377 million in 2011. In a traditional satellite installation, each tuner usually requires a unique cable from the satellite dish to the set-top box to receive the full channel lineup. Our DBS outdoor unit solutions, which support HDTV, can significantly reduce the deployment costs for digital broadcast satellite providers by allowing them to send multiple video streams from individual or multiple satellites into the home over a single cable. This simplified cabling architecture can enable digital broadcast satellite providers to deploy set-top boxes, with multiple tuner capabilities, in multiple rooms, and roll out new services without expensive installation and retrofitting while also improving aesthetics.

Silicon Television Tuner

We provide silicon television tuner integrated circuits for satellite, cable and terrestrial applications that conform to most of the major digital video broadcast standards, including the U.S. and international HDTV standards. According to IMS, worldwide shipments of satellite, cable and terrestrial set-top box and integrated digital televisions are expected to increase from approximately 186 million in 2007 to 277 million in 2011. Our tuner integrated circuits integrate radio frequency functions, including those performed by a surface acoustic wave filter, with other major discrete components onto a single die while maintaining the performance of traditional non-silicon can tuners. Our highly integrated solutions significantly reduce our customers design costs and shrink the tuner footprint in consumer electronic devices.

Our Strategy

Our goal is to be the leading provider of systems solutions for the connected home entertainment market by enabling the delivery of multiple streams of HD video and other multimedia content into and throughout the home. The key elements of our strategy are to:

- **Extend our technology leadership.** We have created innovative systems-level solutions such as our MoCA-based home networking and DBS outdoor unit products. We intend to extend our leadership by focusing on our research and development efforts and through targeted technology acquisitions.

- **Expand relationships with industry leaders and customers**. We intend to expand our existing relationships with service providers, ODMs and OEMs by securing additional design wins and by positioning our connected home entertainment technologies as the key differentiator in next generation customer premises equipment.

- **Continue to broaden our solutions.** We intend to add additional features and capabilities to our products and provide full platform solutions to address the large and growing connected home entertainment market.

- **Expand our presence in international markets**. We intend to continue to expand our sales and technical support organization to broaden our service provider reach in international markets, primarily in Asia and Europe.

- **Drive industry standards.** We intend to continue to use our technology leadership to define specifications and drive industry standards, such as MoCA, which we believe will lead to widespread adoption of our solutions.

Risk Factors

We are subject to a number of risks, which you should be aware of before you buy our common stock. For example:

- we have a history of losses and may not achieve or sustain profitability in the future;
- we face intense competition and expect competition to increase in the future, with many of our competitors being larger, more established and better capitalized than us;
- we depend on a limited number of customers and ultimately service providers for a substantial portion of our revenues, and the loss of, or a significant shortfall in orders from, any of these parties could significantly impair our financial condition and results of operations;
- if the market for HD video and other multimedia content delivery solutions based on the MoCA standard does not develop as we anticipate, our revenues may decline or fail to grow, which would adversely affect our operating results; and
- even if service providers, ODMs and OEMs adopt multimedia content delivery solutions based on the MoCA standard, we may not compete successfully in the market for MoCA-compliant chipsets.

These and other risks affecting us are more fully described in Risk Factors.

Corporate Information

We were incorporated in Delaware in January 2001. Our principal executive offices are located at 9276 Scranton Road, Suite 200, San Diego, California 92121, and our telephone number is (858) 625-3200. Our corporate website address is *www.entropic.com*. We do not incorporate the information contained on, or accessible through, our website into this prospectus, and you should not consider it part of this prospectus.

In May 2007, we acquired Arabella Software Ltd., a developer of embedded software. In June 2007, we acquired RF Magic, a provider of digital broadcast satellite outdoor unit and silicon television tuner solutions.

For convenience in this prospectus, Entropic, we, us, and our refer to Entropic Communications, Inc. and its subsidiaries, taken as a whole, unless otherwise noted.

We use Entropic, Entropic Communications, c.LINK and RF Magic as registered trademarks. This prospectus also contains trademarks and tradenames of other companies, and those trademarks and tradenames are the property of their respective owners.

THE OFFERING

Common stock offered by us	8,000,000 shares
Over-allotment option	The selling stockholders, which include our chief executive officer and certain other members of our management, have granted the underwriters an option for a period of 30 days to purchase up to 1,200,000 additional shares of common stock.
Common stock to be outstanding after this offering	67,614,775 shares
Use of proceeds from this offering	We anticipate using approximately $9.0 million of the net proceeds from this offering for the repayment of outstanding indebtedness as described in Use of Proceeds. We intend to use the balance of the net proceeds to us from this offering for working capital and general corporate purposes. A portion of the net proceeds to us may also be used to acquire or license products, technologies or businesses. We will not receive any of the proceeds from the sale of common stock by the selling stockholders. See Use of Proceeds on page 40.
Nasdaq Global Market symbol	ENTR

The number of shares of our common stock that will be outstanding after this offering is based on 59,614,775 shares outstanding as of September 30, 2007, and excludes:

- 6,941,566 shares of common stock subject to options outstanding at September 30, 2007 under our stock option and equity incentive plans, with a weighted average exercise price of $1.13 per share;

- 182,201 shares of common stock reserved for issuance at September 30, 2007 pursuant to put and call option agreements between Entropic, RF Magic, and certain holders of options to purchase RF Magic common stock;

- 940,690 shares of common stock subject to warrants outstanding at September 30, 2007, with a weighted average exercise price of $2.22 per share; and

- 4,307,691 shares of common stock reserved for future issuance under our 2007 equity incentive plan, 2007 non-employee directors stock option plan and 2007 employee stock purchase plan, each of which will become effective upon the signing of the underwriting agreement for this offering. The share reserve of our 2007 equity incentive plan will also include (and the number of shares of our common stock that will be outstanding after this offering excludes) the unallocated shares remaining available for issuance under our existing stock option and equity incentive plans as of the effective date of our 2007 equity incentive plan (394,859 shares as of September 30, 2007) plus any shares that thereafter would otherwise revert to the existing plans but for their termination. In addition, the share reserves of all of the 2007 plans will be subject to automatic annual increases in accordance with the terms of the plans.

Unless otherwise stated, all information contained in this prospectus reflects a 1-for-3.25 reverse stock split of our common stock that was effected in October 2007 and assumes:

- the conversion of all of our outstanding preferred stock as of September 30, 2007 into an aggregate of 44,897,053 shares of common stock prior to the closing of this offering;

- the surrender of all stock certificates formerly representing RF Magic s capital stock in exchange for shares of our capital stock;

- the filing of our amended and restated certificate of incorporation and adoption of our amended and restated bylaws, each of which will occur upon the closing of this offering; and

- no exercise of the underwriters over-allotment option.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following tables set forth summary consolidated financial data. The summary consolidated statement of operations data for the years ended December 31, 2004, 2005 and 2006 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The summary consolidated statement of operations data for the nine months ended September 30, 2006 and 2007 and summary consolidated balance sheet data as of September 30, 2007 are derived from our unaudited consolidated financial statements included elsewhere in this prospectus. You should read this summary consolidated financial data in conjunction with the consolidated financial statements and related notes and the information under Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus. The historical results are not necessarily indicative of results of operations to be expected in any future period.

The following summary unaudited pro forma condensed consolidated combined statement of operations data for the year ended December 31, 2006 and the nine months ended September 30, 2007 are based on the historical statements of operations of Entropic and RF Magic, giving effect to our acquisition of RF Magic as if the acquisition had occurred on January 1, 2006. The unaudited pro forma condensed consolidated combined statement of operations data are based on the estimates and assumptions set forth in the notes to the unaudited pro forma condensed consolidated combined financial statements. These estimates and assumptions are preliminary and subject to change, and have been made solely for the purposes of developing such pro forma information. The summary unaudited pro forma condensed consolidated combined statement of operations data are not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during these periods.

The as adjusted balance sheet data as of September 30, 2007 gives effect to (i) the conversion of all of our outstanding preferred stock as of September 30, 2007 into 44,897,053 shares of common stock, which will occur automatically immediately prior to the closing of this offering, (ii) our receipt of the estimated net proceeds from the sale of shares of common stock by us in this offering at the initial public offering price of $6.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, and (iii) the repayment of outstanding indebtedness, a prepayment penalty and the write-off of unamortized debt discount as described in Use of Proceeds and Capitalization.

	Actual			Pro Forma	Actual		Pro Forma
	Years Ended December 31,				Nine Months Ended September 30,		
	2004	2005	2006	2006 (unaudited)	2006	2007 (unaudited)	2007 (unaudited)
	(in thousands, except per share data)						
Consolidated Statement of Operations Data:							
Net revenues	$ 358	$ 3,719	$ 41,471	$ 67,654	$ 24,923	$ 82,377	$ 97,401
Cost of net revenues(1)	149	1,979	31,099	49,575	18,386	54,491	60,435
Gross profit	209	1,740	10,372	18,079	6,537	27,886	36,966
Operating expenses:							
Research and development(1)	8,984	9,574	11,601	24,179	8,153	22,812	30,248
Sales and marketing(1)	1,560	2,247	4,112	8,322	2,939	6,642	9,322
General and administrative(1)	1,482	1,846	2,192	5,344	1,515	5,104	7,723
Write off of in-process research and development						21,400	
Amortization of purchased intangible assets				3,533		1,338	1,705
Total operating expenses	12,026	13,667	17,905	41,378	12,607	57,296	48,998
Loss from operations	(11,817)	(11,927)	(7,533)	(23,299)	(6,070)	(29,410)	(12,032)
Other income (expense), net	157	(323)	482	271	492	(2,070)	(2,370)
Income tax provision				(49)			(30)
Net loss before cumulative effect of change in accounting principle	(11,660)	(12,250)	(7,051)	(23,077)	(5,578)	(31,480)	(14,432)
Cumulative effect of change in accounting principle		54					
Net loss	(11,660)	(12,196)	(7,051)	(23,077)	(5,578)	(31,480)	(14,432)
Accretion of redeemable convertible preferred stock	(85)	(89)	(126)	(126)	(95)	(95)	(95)
Net loss attributable to common stockholders	$ (11,745)	$ (12,285)	$ (7,177)	$ (23,203)	$ (5,673)	$ (31,575)	$ (14,527)
Net loss per share attributable to common stockholders basic and diluted	$ (4.25)	$ (3.70)	$ (1.66)	$ (2.27)	$ (1.33)	$ (3.89)	$ (1.21)
Weighted average number of shares used to compute net loss per share attributable to common stockholders	2,761	3,317	4,325	10,223	4,259	8,113	12,023
Pro forma net loss per common share basic and diluted (unaudited)			$ (0.20)	$ (0.42)		$ (0.71)	$ (0.26)
Weighted average number of shares used to compute pro forma net loss per share basic and diluted (unaudited)			35,886	54,827		44,363	56,921

(1) Includes stock-based compensation as follows:

	Actual			Pro Forma	Actual		Pro Forma
	Years Ended December 31,				Nine Months Ended September 30,*		
	2004	2005	2006*	2006* (unaudited)	2006	2007 (unaudited)	2007 (unaudited)
	(in thousands)						

Cost of net revenues	$	$	$	$ 191	$	$ 88	$ 183
Research and development			116	1,549	49	1,927	2,636
Sales and marketing	2	6	56	600	21	685	955
General and administrative	11	20	51	1,313	4	1,125	1,752
Total stock-based compensation expense	$ 13	$ 26	$ 223	$ 3,653	$ 74	$ 3,825	$ 5,526

* We adopted the fair value recognition and measurement provisions of SFAS 123R, *Share-Based Payment*, effective January 1, 2006, using the prospective transition method. For periods prior to January 1, 2006, we followed the intrinsic value recognition and measurement provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. For further information, see note 1 to the notes to consolidated financial statements included in this prospectus.

	As of September 30, 2007	
	Actual	**As Adjusted**
	(unaudited)	
	(in thousands)	
Consolidated Balance Sheet Data:		
Cash and cash equivalents	$ 11,181	$ 43,451
Working capital	28,679	63,103
Total assets	177,281	209,551
Debt, software license and capital lease obligations current and long-term	9,003	509
Total redeemable convertible preferred stock	178,879	
Total stockholders (deficit) equity	(33,063)	186,580

R ISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors and all other information contained in this prospectus, including the consolidated financial statements and related notes contained in this prospectus, before investing in our common stock. Additional risks and uncertainties that we are unaware of, or that we currently believe are not material, also may become important factors that affect us. If any of the following risks materialize, our business, financial condition or results of operations could be materially harmed. In that case, the trading price of our common stock could decline, and you could lose some or all of your investment.

Risks Related to Our Business

We have a history of losses and may not achieve or sustain profitability in the future.

Neither Entropic nor RF Magic has ever been profitable on an annual basis. Entropic has never been profitable in any fiscal period. Entropic incurred net losses of $31.5 million for the nine months ended September 30, 2007 and $11.7 million, $12.2 million and $7.1 million for the years ended December 31, 2004, 2005 and 2006, respectively. RF Magic incurred net losses of $11.6 million, $5.3 million and $1.5 million for the years ended December 31, 2004, 2005 and 2006, respectively. As of September 30, 2007, we had an accumulated deficit of $91.8 million. Accordingly, there can be no assurance if or when we may achieve profitability as a combined company. Though Entropic s revenues increased from approximately $3.7 million for the year ended December 31, 2005 to approximately $41.5 million for the year ended December 31, 2006 and RF Magic s revenues increased from approximately $14.5 million for the year ended December 31, 2005 to approximately $26.2 million for the year ended December 31, 2006, we may not achieve similar growth as a combined company in future periods. You should not rely on Entropic s or RF Magic s operating results for any prior quarterly or annual periods as an indication of our future operating performance. Moreover, we expect to make significant expenditures related to the development of our products and the expansion of our business, including research and development, sales and marketing and general and administrative expenses. As a public company, we will also incur significant legal, accounting and other expenses that we did not incur as a private company. Additionally, we may encounter unforeseen difficulties, complications, product delays and other unknown factors that require additional expenditures and unforeseen difficulties or costs associated with the integration of RF Magic. As a result of these expenditures, we may have to generate and sustain substantially increased revenue to achieve profitability. If we are unable to achieve adequate revenue growth, we may not achieve or sustain profitability and our stock price could decline.

We face intense competition and expect competition to increase in the future, with many of our competitors being larger, more established and better capitalized than us.

The markets for our products are extremely competitive and have been characterized by rapid technological change, evolving industry standards, rapid changes in customer requirements, short product life cycles and frequent introduction of next generation and new products. This competition could make it more difficult for us to sell our products, and result in increased pricing pressure, reduced gross profit as a percentage of revenues, or gross margins, increased sales and marketing expenses, and failure to increase or the loss of market share or expected market share. Semiconductor products in particular have a history of declining prices driven by customer insistence on lower prices as the cost of production is reduced and as demand falls when competitive products or newer, more advanced products are introduced. If market prices decrease faster than product costs, our gross and operating margins would be adversely affected. Moreover, we expect increased competition from other established and emerging companies both domestically and internationally. In particular, we expect to face future competition in the sale of MoCA-compliant chipsets. Our current and potential competitors may also establish cooperative relationships among themselves or with third parties. If so, competitors or alliances that include our competitors may emerge that could acquire significant market share. We expect these trends to continue as companies attempt to strengthen or maintain their market positions in an evolving industry. In

addition, our competitors could develop products or technologies that cause our products and technologies to become non-competitive or obsolete, or cause us to substantially reduce our prices.

Currently, we face competition from a number of established companies that offer products based on competing technologies, such as Data over Cable Service Interface Specifications, or DOCSIS, versions of digital subscriber line, or xDSL, Ethernet, HomePNA, HomePlug AV, Wi-Fi, WiMedia, which is based on ultra-wide band technology, and Worldwide Interoperability for Microwave Access, or WiMAX. Many of our competitors and potential competitors are substantially larger and have longer operating histories, larger customer bases and significantly greater financial, technical, sales, marketing and other resources than us. Given their capital resources, many of these larger organizations are in a better position to withstand any significant reduction in capital spending by customers or market downturns in the markets in which we compete. Many of our competitors also have broader product lines and market focus, allowing them to bundle their products and services and effectively use other products to subsidize lower prices for those products that compete with ours. In addition, many of our competitors have been in operation much longer than us and therefore have better name recognition and more long-standing and established relationships with service providers, ODMs and OEMs.

Our ability to compete depends on a number of factors, including:

- the adoption of our products and technologies by service providers, ODMs and OEMs;
- the performance and cost effectiveness of our products relative to our competitors   products;
- our ability to deliver high quality and reliable products in large volumes and on a timely basis;
- our ability to build close relationships with service providers, ODMs and OEMs;
- our success in developing and utilizing new technologies to offer products and features previously not available in the marketplace that are technologically superior to those offered by our competitors;
- our ability to identify new and emerging markets and market trends;
- our ability to recruit design and application engineers and other technical personnel; and
- our ability to protect our intellectual property and obtain licenses to the intellectual property of others on commercially reasonable terms.

Our inability to effectively address any of these factors, alone or in combination with others, could seriously harm our business, operating results and financial condition.

In addition, consolidation by industry participants or acquisitions of our competitors by our customers or suppliers could result in competitors with increased market share, larger customer bases, greater diversified product offerings and greater technological and marketing expertise, which would allow them to compete more effectively against us. Current and potential competitors may also gain such competitive advantages by establishing financial or strategic relationships with existing or potential customers, suppliers or other third-parties. These new competitors or alliances among competitors could emerge rapidly and acquire significant market share. In addition, some of our suppliers and customers offer or may offer products that compete with our products. Depending on the participants, industry consolidation or the formation of strategic relationships could have a material adverse effect on our business and results of operations by reducing our ability to compete successfully in our current markets and the markets we are seeking to serve.

We depend on a limited number of customers and ultimately service providers for a substantial portion of our revenues, and the loss of, or a significant shortfall in, orders from any of these parties could significantly impair our financial condition and results of operations.

We derive a substantial portion of our revenues from a limited number of customers. For example, during the year ended December 31, 2006 and the nine months ended September 30, 2007, ten customers accounted for

approximately 92% and 95%, respectively, of the pro forma revenues of Entropic and its recently-acquired subsidiary, RF Magic. During the year ended December 31, 2006, Actiontec, Motorola and CalAmp Corp. accounted for 31%, 23% and 11%, respectively, of the pro forma revenues of Entropic and RF Magic. During the nine months ended September 30, 2007, Motorola, Actiontec and Jabil Circuit accounted for 39%, 24% and 12%, respectively, of the pro forma revenues of Entropic and RF Magic. Our inability to generate anticipated revenues from our key existing or targeted customers, or a significant shortfall in sales to these customers, would significantly reduce our revenues and adversely affect our operating results. Our operating results in the foreseeable future will continue to depend on our ability to effect sales to existing and other large customers.

In addition, we depend on a limited number of service providers that purchase products from our customers that incorporate our products. To date, only one major service provider, Verizon, has publicly announced its intention to use the MoCA standard for home networking in its FiOS deployment. We also primarily rely on one major service provider, EchoStar, to deploy products using our DBS outdoor unit solutions. During the year ended December 31, 2006 and the nine months ended September 30, 2007, products sold to Entropic s and RF Magic s customers that were incorporated into products purchased by Verizon and EchoStar accounted for substantially all of the pro forma revenues of Entropic and RF Magic. If either of these service providers, or other service providers that elect to use our products, reduce or eliminate purchases of our customers products which incorporate our products, this would significantly reduce our revenues and adversely affect our operating results. Our operating results in the foreseeable future will continue to depend on a limited number of service providers demand for products which incorporate our products.

We may have conflicts with our customers or the service providers that purchase products from our customers that incorporate our products. For example, we had disagreements with EchoStar regarding certain intellectual property rights and other matters which we resolved by entering into certain licensing arrangements related to our DBS outdoor unit solutions and agreeing to make certain cash payments.

Any future conflict with our customers or the service providers that purchase products from our customers that incorporate our products could result in events that have a negative impact on our business, including:

- reduced purchases of our products or our customers products that incorporate them;
- uncertainty regarding ownership of intellectual property rights;
- litigation or the threat of litigation; or
- settlements or other business arrangements imposing obligations on us or restrictions on our business, including obligations to license intellectual property rights or make cash payments.

If we fail to develop and introduce new or enhanced products on a timely basis, our ability to attract and retain customers could be impaired, and our competitive position may be harmed.

To compete successfully, we must design, develop, market and sell new or enhanced products that provide increasingly higher levels of performance and reliability and meet the cost expectations of our customers. The introduction of new products by our competitors, the market acceptance of products based on new or alternative technologies, or the emergence of new industry standards could render our existing or future products obsolete. Our failure to anticipate or timely develop new or enhanced products or technologies in response to technological shifts could result in decreased revenues and an increase in design wins by our competitors. In particular, we may experience difficulties with product design, manufacturing, marketing or certification that could delay or prevent our development, introduction or marketing of new or enhanced products. If we fail to introduce new or enhanced products that meet the needs of our customers or penetrate new markets in a timely fashion, we will lose market share and our operating results will be adversely affected.

Our results could be adversely affected if our customers or the service providers who purchase their products are unable to successfully compete in their respective markets.

Our customers and the service providers that purchase products from our customers face significant competition from their competitors. We rely on these customers and service providers ability to develop

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products and/or services that meet the needs of their customers in terms of functionality, performance, availability and price. If these customers and service providers do not successfully compete, they may lose market share, which would negatively impact the demand for our products. For example, for our home networking products, there is intense competition among service providers to deliver video and other multimedia content into and throughout the home. For the sale of our home networking products, we are currently dependent on Verizon s ability to compete in the market for the delivery of HD video and other multimedia content. Therefore, factors influencing Verizon s ability to compete in this market, such as laws and regulations regarding local cable franchising, could have an adverse effect on our current ability to sell home networking products. In addition, our DBS outdoor unit products are primarily supplied to digital broadcast satellite service providers by our ODM and OEM customers. Digital broadcast satellite service providers are facing significant competition from telecommunications carriers and cable multiple service operators as they compete for customers in terms of video, voice and data services. Moreover, ODMs and OEMs who market satellite set-top boxes using our silicon television tuners are competing with a variety of internet protocol-based video delivery solutions, including xDSL technology and certain fiber optic-based solutions. Many of these technologies compete effectively with satellite set-top boxes and do not require television tuners such as the ones we sell. If our customers and the service providers who purchase products from our customers that incorporate our products do not successfully compete, they may lose market share, which would reduce their demand for our products.

If the market for HD video and other multimedia content delivery solutions based on the MoCA standard does not develop as we anticipate, our revenues may decline or fail to grow, which would adversely affect our operating results.

We derive, and expect to continue to derive for the foreseeable future, a significant portion of our revenues from sales of our home networking products based on the MoCA standard. The market for such multimedia content delivery solutions based on the MoCA standard is relatively new, still evolving, and difficult to predict. In the near-term, we believe our primary competition in this market will be from companies that offer products based on non-MoCA home networking solutions, such as Ethernet, HomePNA, Home Plug AV, Wi-Fi and WiMedia. In the future, we expect other semiconductor manufacturers to compete with us in the manufacture and sale of MoCA-compliant chipsets. It is therefore uncertain whether the MoCA standard will achieve and sustain high levels of demand and market acceptance. Moreover, deployment of services or electronic devices utilizing MoCA-based solutions may be delayed or slower than we anticipate. If the market for MoCA-based solutions does not continue to develop or develops more slowly than we expect, or if we make errors in predicting adoption and deployment rates for these solutions, our revenues may be significantly adversely affected.

Our success will depend to a substantial extent on the willingness of service providers, ODMs and OEMs to adopt the MoCA standard for multimedia content delivery. As of September 30, 2007, 11 companies had products certified by MoCA and only one major service provider, Verizon, had publicly announced its intention to use the MoCA standard for home networking. Some service providers, ODMs and OEMs have adopted and others may adopt multimedia content delivery solutions that rely on technologies other than the MoCA standard or may choose to wait for the introduction of products and technologies that serve as a replacement or substitute for, or represent an improvement over, MoCA-based solutions. It is critical to our success that additional service providers, including telecommunications carriers and cable operators, adopt the MoCA standard for home networking.

Even if service providers, ODMs and OEMs adopt multimedia content delivery solutions based on the MoCA standard, we may not compete successfully in the market for MoCA-compliant chipsets.

As a member of MoCA, we are required to license any of our patent claims that are essential to implement the MoCA specifications to other MoCA members on reasonable and non-discriminatory terms. As a result, we are required to license some of our important intellectual property to other MoCA members, including other semiconductor manufacturers that may compete with us in the sale of MoCA-compliant chipsets. If we are unable to differentiate our MoCA-compliant chipsets from other MoCA-compliant chipsets by offering superior

pricing and features outside MoCA specifications, we may not be able to compete effectively in the market for such chipsets. Moreover, although we are currently and actively involved in the ongoing development of the MoCA standard, we cannot guarantee that future MoCA specifications will incorporate technologies or product features we are developing or that our products will be compatible with future MoCA specifications. As additional members, including our competitors, continue to join MoCA, they and existing members may exert greater influence on MoCA and the development of the MoCA standard in a manner that is adverse to our interests. If our home networking products fail to comply with future MoCA specifications, the demand for these products could be severely reduced.

The geographic market for our broadband access products is limited and these products may not be widely adopted.

Our broadband access products are designed to meet broadband access requirements in areas characterized by fiber optic network deployments that terminate within one kilometer of customer premises. We believe the primary geographic markets for our broadband access products are currently in certain Asian countries such as China, Japan and Korea, and parts of Europe where there are many multi-dwelling units and fiber optic networks that extend to or near a customer premises. We do not expect to generate significant revenues from sales of our broadband access products in North America, which is generally characterized by low-density housing, or in developing nations which do not generally have extensive fiber optic networks. To the extent our efforts to sell our broadband access products into currently targeted foreign markets are unsuccessful, the demand for these products may not develop as anticipated or decline, either of which could adversely affect our future revenues. Moreover, these foreign markets have a large number of service providers and varying regulatory standards, both of which may delay any widespread adoption of our products and increase the time during which competing technologies could be introduced and displace our products.

In addition, if areas characterized by fiber optic networks that terminate within one kilometer of customer premises do not continue to grow, or we are unable to develop broadband access products that are competitive outside of these areas, the demand for our broadband access products may not grow and our revenues may be limited. Even if the markets in which our broadband access products are targeted continue to grow or we are able to serve additional markets, customers and service providers may not adopt our technology. There are a growing number of competing technologies for delivering high-speed broadband access from the service provider s network to the customer s premises. For example, our broadband access products face competition from products using DOCSIS, xDSL, Ethernet and WiMAX-based solutions. Moreover, there are many other access technologies that are currently in development including some low cost proprietary solutions. If service providers adopt competing products or technologies, the demand for our broadband access products will decline and we may not be able to generate significant revenues from these products.

The success of our DBS outdoor unit products depends on the demand for our products within the satellite digital television market and the growth of this overall market.

In addition to our home networking products, we also derive a significant portion of our revenues from sales of our DBS outdoor unit products into markets served by digital broadcast satellite providers and their ODM and OEM partners. The digital broadcast satellite market may not grow in the future as anticipated or a significant market slowdown may occur, which would in turn reduce the demand for applications or devices, such as set-top boxes and low-noise block converters, that rely on our DBS outdoor unit products. Because of the intense competition in the satellite, terrestrial and cable digital television markets, the unproven technology of many products addressing these markets and the short product life cycles of many consumer applications or devices, it is difficult to predict the potential size and future growth rate of the markets for our DBS outdoor unit products. If the demand for our DBS outdoor unit products is not as great as we expect, or if we are unable to produce competitive products to meet that demand, our revenues could be adversely affected.

Market-specific risks affecting the digital television, digital television set-top boxes, and digital television peripheral markets could impair our ability to successfully sell our silicon television tuners.

The market for digital television applications in digital televisions, digital television set-top boxes and digital television peripherals is characterized by certain market-specific risks, any of which may adversely affect our ability to sell our silicon television tuners. For example, sellers of module tuners that offer similar or better functionality than our silicon television tuner solutions may dramatically lower their prices and become more competitive than us in the tuner market. In addition, our silicon television tuners may not have the feature set desired by our customers or may not be architecturally compatible with other components in the customers designs. Our efforts to penetrate the digital television market, in particular, will depend on our ability to overcome these and other challenges and upon market acceptance of our new digital television products. To the extent our efforts are adversely affected by any of these risks or are otherwise unsuccessful, the demand for our silicon television tuners may not develop as anticipated or decline which would adversely affect our revenues, financial condition and results of operations.

The success of our silicon television tuners is highly dependent on our relationships with demodulator manufacturers.

Our silicon television tuners are designed to be interoperable with various specific demodulator integrated circuit products that are designed and manufactured by other companies. Historically, RF Magic relied on strategic relationships with various demodulator manufacturers to enable both parties to offer an interoperable tuner/demodulator solution to mutual end customers. Although we work in concert with third party demodulator manufacturers to complete highly functional reference designs, we have no control over their future product plans and product roadmaps and could be effectively designed out of future customer applications by the refusal of a demodulator manufacturer to continue to support our products. Likewise, our ability to acquire new customers is dependent on the cooperation of third party demodulator manufacturers. If such third party manufacturers decide to partner with one of our competitors or to provide their own tuner solutions, we would effectively be prevented from selling our products to potential new customers. Furthermore, our dependence on these third party demodulator manufacturers often limits our strategic direction. If we were to design products that were competitive with any of such demodulator manufacturers, they may choose to stop working with us. Our current principal demodulator relationship is with STMicroelectronics in the digital video broadcasting terrestrial and cable, Advanced Television Systems Committee, or ATSC, and digital broadcast satellite markets. In the digital broadcast satellite market, our tuners are currently marketed with an STMicroelectronics demodulator; however, STMicroelectronics has recently released its own radio frequency silicon tuner that will replace some of the tuners we sell, and STMicroelectronics may continue to release other competing tuners or require us to reduce our prices on the tuners we sell with their demodulators.

If any of the current or prospective demodulator manufacturers with whom we have or intend to have relationships were to stop working with us in favor of other tuner manufacturers or in favor of deploying their own tuner products, we would be effectively designed out of current and potential customers products and the demand for our silicon television tuners would be substantially reduced.

We intend to expand our operations and increase our expenditures in an effort to grow our business. If we are not able to manage this expansion and growth, or if our business does not grow as we expect, we may not be able to realize a return on the resources we devote to expansion.

We have experienced significant growth in a short period of time, including growth related to our recent acquisitions of RF Magic and Arabella. For example, we have increased our headcount from 59 full-time employees as of January 1, 2006 to 249 full-time employees as of September 30, 2007 (including employees which we added as part of our acquisitions of RF Magic and Arabella). We anticipate that further expansion of our infrastructure and headcount will be required to achieve planned expansion of our product offerings, projected increases in our customer base and anticipated growth in the number of our product deployments. For example, we recently entered

into a lease agreement for additional facilities in San Diego, California to accommodate our anticipated growth. Our rapid growth has placed, and will continue to place, a significant strain on our administrative and operational infrastructure. Our success in managing our operations and growth will be dependent upon our ability to:

- enhance our operational, financial, and management controls, human resource policies, and reporting systems and procedures;
- expand our facilities and equipment;
- successfully hire, train, motivate and productively deploy additional employees, including technical personnel; and
- expand our international resources.

Our inability to effectively address any of these factors, alone or in combination with others, could seriously harm our ability to execute our business strategy.

Further, we intend to grow our business by entering new markets, developing new product offerings and pursuing new customers. If we fail to timely or efficiently expand operational and financial systems in connection with such growth or if we fail to implement or maintain effective internal controls and procedures, resulting operating inefficiencies could increase costs and expenses more than we planned and might cause us to lose the ability to take advantage of market opportunities, enhance existing products, develop new products, satisfy customer requirements, respond to competitive pressures, control our inventory or otherwise execute our business plan. Failure to implement or maintain such controls and procedures could also impact our ability to produce timely and accurate financial statements. Additionally, if we increase our operating expenses in anticipation of the growth of our business and such growth does not meet our expectations, our financial results likely would be negatively impacted.

We may not realize the anticipated financial and strategic benefits from our recent acquisitions of RF Magic and Arabella or be able to successfully integrate those companies with ours.

We will need to overcome significant challenges in order to realize benefits or synergies from our recent acquisitions of RF Magic and Arabella. These challenges include the following:

- integrating businesses, operations and technologies;
- retaining and assimilating key personnel;
- retaining existing customers and attracting additional customers;
- creating uniform standards, controls, procedures, policies, and information systems;
- meeting the challenges inherent in efficiently managing an increased number of employees, including some at geographic locations distant from our headquarters and senior management; and
- implementing appropriate systems, policies, benefits and compliance programs.

Integration in particular may involve considerable risks and may not be successful. These risks include the following:

the potential disruption of our ongoing business and distraction of our management;

the potential strain on our financial and managerial controls and reporting systems and procedures;

unanticipated expenses and potential delays related to integration of the operations, technology and other resources of the acquired companies;

the impairment of relationships with employees, suppliers, and customers; and

potential unknown or contingent liabilities.

The inability to successfully integrate RF Magic and Arabella, or any significant delay in achieving integration, could delay introduction of new products and require expenditure of additional resources to achieve integration.

In addition, we have recorded significant amounts of goodwill and other intangible assets in connection with our acquisitions of RF Magic and Arabella. The carrying amount of these long-lived assets could be reduced through impairment charges in future periods if events or changes in circumstances, including adverse industry conditions or a downturn in demand for our products, indicate that such amount is not recoverable. Any such impairment charge could have a material adverse impact on our results of operations.

We have a very limited operating history as a combined company following our acquisition of RF Magic and we cannot predict what effect the acquisition will have on our future combined results of operations.

Investors should not rely on the historical financial results of Entropic or RF Magic as separate operating entities to predict our future results of operations as a combined company. Moreover, the unaudited pro forma condensed consolidated combined financial data presented elsewhere in this prospectus are not necessarily indicative of the combined financial position or results of operations that actually would have been realized had our acquisition of RF Magic occurred prior to the covered periods. Investors should not rely on this pro forma data to predict our future results of operations as a combined company. If we are unable to or experience difficulties or delays in our attempt to successfully integrate RF Magic s business and operations with our own, our financial results as a combined company may suffer.

Any acquisition, strategic relationship, joint venture or investment could disrupt our business and harm our financial condition.

We intend to continue to actively pursue acquisitions, strategic relationships, joint ventures or investments that we believe may allow us to complement our growth strategy, increase market share in our current markets or expand into adjacent markets, or broaden our technology and intellectual property. Such transactions may be complex, time consuming and expensive, and may present numerous challenges and risks including:

- difficulties in assimilating any acquired workforce and merging operations;
- attrition and the loss of key personnel;
- an acquired company, asset or technology not furthering our business strategy as anticipated;
- our overpayment for a company, asset or technology or changes in the economic or market conditions or assumptions underlying our decision to make an acquisition;
- difficulties entering and competing in new product or geographic markets and increased competition, including price competition;
- significant problems or liabilities, including increased intellectual property and employment related litigation exposure, associated with acquired businesses, assets or technologies;
- in connection with any such transaction, the need to use a significant portion of our available cash, issue additional equity securities that would dilute the then-current stockholders percentage ownership or incur substantial debt or contingent liabilities; and
- requirements to record substantial charges and amortization expense related to certain purchased intangible assets, deferred stock compensation and other items.

Any one of these challenges or risks could impair our ability to realize any benefit from our acquisitions, strategic relationships, joint ventures or investments after we have expended resources on them.

In addition, from time to time we may enter into negotiations for acquisitions, relationships, joint ventures or investments that are not ultimately consummated. These negotiations could result in significant diversion of management time, as well as substantial out-of-pocket costs.

We cannot forecast the number, timing or size of future acquisitions, strategic relationships, joint ventures or investments, or the effect that any such transactions might have on our operating or financial results. Any such transaction could disrupt our business and harm our operating results and financial condition.

The average selling prices of our products have historically decreased over time and will likely do so in the future, which may reduce our revenues.

Our products and products sold by other companies in our industry have historically experienced a decrease in average selling prices over time. We anticipate that the average selling prices of our products will continue to decrease in the future in response to competitive pricing pressures, increased sales discounts and new product introductions by our competitors. For example, while we are currently the only manufacturer of MoCA-compliant chipsets, we expect that other chipset manufacturers who are members of MoCA will eventually produce competing chipsets and create pricing pressure for such products. Our future operating results may be harmed due to the decrease of our average selling prices. To maintain our current gross margins or increase our gross margins in the future, we must develop and introduce on a timely basis new products and product enhancements, continually reduce our product costs and manage product transitions in a timely and cost-effective manner. Our failure to do so would likely cause our revenues and gross margins to decline, which could have a material adverse effect on our operating results and cause the value of our common stock to decline.

Our product development efforts are time-consuming, require substantial research and development expenditures and may not generate an acceptable return.

Our product development efforts require substantial research and development expense. Entropic s research and development expense for the nine months ended September 30, 2007 was $22.8 million and was $9.0 million, $9.6 million and $11.6 million for the years ended December 31, 2004, 2005 and 2006, respectively. RF Magic s research and development expense was $10.1 million, $9.8 million and $11.2 million for the years ended December 31, 2004, 2005 and 2006, respectively. There can be no assurance that we will achieve an acceptable return on our research and development efforts.

The development of our products is also highly complex. Due to the relatively small size of our product design teams, our research and development efforts in our core technologies may lag behind those of our competitors, some of whom have substantially greater financial and technical resources. We occasionally have experienced delays in completing the development and introduction of new products and product enhancements, and we could experience delays in the future. Unanticipated problems in developing products could also divert substantial engineering resources, which may impair our ability to develop new products and enhancements and could substantially increase our costs. Furthermore, we may expend significant amounts on a research and development program that may not ultimately result in a commercially successful product. As a result of these and other factors, we may be unable to develop and introduce new products successfully and in a cost-effective and timely manner, and any new products we develop and offer may never achieve market acceptance. Any failure to successfully develop future products would have a material adverse effect on our business, financial condition and results of operations.

Our operating results have fluctuated significantly in the past and we expect them to continue to fluctuate in the future, which could lead to volatility in the price of our common stock.

Our operating results have fluctuated in the past and are likely to continue to fluctuate, on an annual and a quarterly basis, as a result of a number of factors, many of which are outside of our control. These fluctuations in our operating results may cause our stock price to fluctuate as well. The primary factors that are likely to affect our quarterly and annual operating results include:

- changes in demand for our products or those offered by service providers and our customers;
- the timing and amount of orders, especially from significant service providers and customers;
- the seasonal nature of our sales;
- the level and timing of capital spending of service providers, both in the United States and in international markets;
- competitive market conditions, including pricing actions by us or our competitors;
- adverse market perception of MoCA-compliant products;
- our unpredictable and lengthy sales cycles;
- the mix of products and product configurations sold;
- our ability to successfully define, design and release new products on a timely basis that meet customers' or service providers' needs;
- costs related to acquisitions of complementary products, technologies or businesses;
- new product introductions and enhancements, or the market anticipation of new products and enhancements, by us or our competitors;
- the timing of revenue recognition on sales arrangements, which may include multiple deliverables, and the effect of our use of inventory "hubbing" arrangements;
- unexpected changes in our operating expenses;
- our ability to attain and maintain production volumes and quality levels for our products, including adequate allocation of wafer, assembly and test capacity for our products by our subcontractors;

- the cost and availability of components used in our products;
- changes in manufacturing costs, including wafer, test and assembly costs, manufacturing yields and product quality and reliability;
- productivity of our sales and marketing force;
- our inability to reduce operating expenses in a particular quarter if revenues for that quarter fall below expectations;
- future accounting pronouncements and changes in accounting policies;
- general economic and political conditions in the countries where we operate or our products are sold or used;
- costs associated with litigation; and
- changes in domestic and international regulatory environments.

Unfavorable changes in any of the above factors, many of which are beyond our control, could significantly harm our business and results of operations. You should not rely on the results of prior periods as an indication of our future performance.

Our products typically have lengthy sales cycles, which may cause our operating results to fluctuate, and a service provider, ODM or OEM customer may decide to cancel or change its service or product plans, which could cause us to lose anticipated sales.

Our products typically have lengthy sales cycles. A service provider must first evaluate our products. This initial evaluation period can vary considerably based on the service provider and product being evaluated, and could take a significant amount of time to complete. Products incorporating new technologies generally require longer periods for evaluation. After this initial evaluation period, if a service provider decides to adopt our products, that service provider and the applicable ODM or OEM customers will need to further test and evaluate our products prior to completing the design of the equipment that will incorporate our products. Additional time is needed to begin volume production of equipment that incorporates our products. Due to these lengthy sales cycles, we may experience significant delays from the time we incur research and development and sales expenses until the time, if ever, that we generate sales from these products. The delays inherent in these lengthy sales cycles increase the risk that a customer will decide to cancel or change its product plans. From time to time, we have experienced changes, delays and cancellations in the purchase plans of our customers. A cancellation or change in plans by a service provider, ODM or OEM customer could prevent us from realizing anticipated sales. In addition, our anticipated sales could be lost or substantially reduced if a significant service provider, ODM or OEM customer reduces or delays orders during our sales cycle or chooses not to release equipment that contains our products. Furthermore, we may invest significant time and effort in marketing to a particular customer that does not ultimately result in a sale to that customer. As a result of these lengthy and uncertain sales cycles for our products, it is difficult for us to predict if or when our customers may purchase products in volume from us, and our operating results may vary significantly from quarter to quarter, which may negatively affect our operating results for any given quarter.

Fluctuations in the mix of products we sell may adversely affect our financial results.

Because of the wide differences in selling prices and manufacturing costs among our products, the mix and types of products sold affect the average selling price of our products and have a substantial impact on our revenues and profit margins. To the extent our sales mix shifts toward increased sales of our lower-margin products, our overall gross margins will be negatively affected. Fluctuations in the mix and types of our products sold may also affect the extent to which we are able to recover our costs and expenditures that are associated with a particular product, and as a result can negatively impact our financial results.

If we do not complete our design-in activities before a customer s design window closes, we will lose the design opportunity, which could adversely effect our future sales and revenues and harm our customer relationships.

The timing of our design-in activities with key customers and prospective customers may not align with their open design windows, which may or may not be known to us, making design win predictions more difficult. If we miss a particular customer s design window, we may be forced to wait an entire year or even longer for the next opportunity to compete for the customer s next design. The loss of a particular design opportunity could eliminate or substantially delay revenues from certain target customers and markets, which could have a material adverse effect on our results of operations and future prospects as well as our customer relationships.

Our products must interoperate with many software applications and hardware found in service providers networks and other devices in the home, and if they do not interoperate properly, our business would be harmed.

Our products must interoperate with service providers networks and other devices in the home, which often have varied and complex specifications, utilize multiple protocol standards, software applications and products from multiple vendors, and contain multiple generations of products that have been added over time. As a result, we must continually ensure that our products interoperate properly with these existing networks. To meet these requirements, we must undertake development efforts that involve significant expense and the dedication of

substantial employee resources. We may not accomplish these development efforts quickly or cost-effectively, if at all. If we fail to maintain compatibility with products, software or equipment found in our customers existing networks, we may face substantially reduced demand for our products, which would adversely affect our business, operating results and financial condition.

From time to time, we may enter into interoperability arrangements with equipment and software vendors for the use or integration of their technology with our products. These arrangements would give us access to and enable interoperability with various products in the connected home entertainment market. If these relationships fail, we would have to devote substantially more resources to the development of alternative products and the support of our products, and our efforts may not be as effective as the combined solutions with our current customers. In many cases, these parties are either companies that we compete with directly in other areas or companies that have extensive relationships with our existing and potential customers and may have influence over the purchasing decisions of these customers. A number of our competitors have stronger relationships than we do with some of our existing and potential customers and, as a result, our ability to have successful arrangements with these companies may be harmed. Our failure to establish or maintain key relationships with third party equipment and software vendors may harm our ability to successfully sell and market our products. We are currently devoting significant resources to the development of these relationships. Our operating results could be adversely affected if these efforts do not result in the revenues necessary to offset these investments.

In addition, if we find errors in the software or hardware used in service providers networks or problematic network configurations or settings we may have to modify our products so that they will interoperate with service providers networks. This could cause longer installation times for our products and order cancellations, either of which would adversely affect our business, operating results and financial condition.

Our customers may cancel their orders, change production quantities or delay production, and if we fail to forecast demand for our products accurately, we may incur product shortages, delays in product shipments or excess or insufficient product inventory.

We sell our products to customers who integrate them into their products. We do not obtain firm, long-term purchase commitments from our customers. We have limited visibility as to the volume of our products that our customers are selling or carrying in their inventory. In addition, our sales are seasonal in nature, with our second quarter revenues expected to be lower and our fourth quarter revenues expected to be higher than the revenues we derive in our other quarters. Because production lead times often exceed the amount of time required to fulfill orders, we often must build inventory in advance of orders, relying on an imperfect demand forecast to project volumes and product mix. Our demand forecast accuracy can be adversely affected by a number of factors, including inaccurate forecasting by our customers, changes in market conditions, adverse changes in our product order mix and demand for our customers products. We have in the past had customers dramatically decrease and increase their requested production quantities with little or no advance notice. Even after an order is received, our customers may cancel these orders or request a decrease in production quantities. Any such cancellation or decrease subjects us to a number of risks, most notably that our projected sales will not materialize on schedule or at all, leading to unanticipated revenue shortfalls, reduced profit margins and excess or obsolete inventory which we may be unable to sell to other customers or which we must sell at reduced prices, or that any resulting disputes with our customers may adversely impact our future relationships with those customers. Alternatively, if we are unable to project customer requirements accurately, we may not build enough products, which could lead to delays in product shipments and lost sales opportunities in the near term, as well as force our customers to identify alternative sources of supply, which could affect our ongoing relationships with these customers and potentially reduce our market share. If we do not timely fulfill customer demands, our customers may cancel their orders and we may be subject to customer claims for cost of replacement.

Our ability to accurately predict revenues and inventory needs, and to effectively manage inventory levels, may be adversely impacted due to our use of inventory hubbing arrangements.

We recently entered into an inventory hubbing arrangement with Motorola and we may enter into similar arrangements with other customers in the future. Pursuant to these arrangements, we ship our products to a designated third party warehouse, or hub, rather than shipping them directly to the customer. The products generally remain in the hub until the customer removes them for incorporation into its own products. Prior to the implementation of this hubbing arrangement with Motorola, we recognized revenues on sales of our products to Motorola upon shipment of those products to Motorola or its OEM partners. Under the hubbing arrangement, however, we will maintain ownership of our products in the hub, and therefore not recognize the related revenue, until the date Motorola removes them from the hub. As a result, our ability to accurately predict future revenues recognized from sales to Motorola or any other customers with which we implement hubbing arrangements may be impaired, and we may experience significant fluctuations in our quarterly operating results depending on when Motorola or any such other customers remove our products from the hub, which they may do with little or no lead time. In the short term, we may experience an increase in operating expenses as we build and ship inventory to the hub and may not recognize revenues from sales of this inventory, if at all, until Motorola or any such other customers remove it from the hub at a later time. Furthermore, because we continue to own but do not maintain control over our products after they are shipped to the hub, our ability to effectively manage inventory levels may be impaired as our shipments under the hubbing arrangement increase and we may be exposed to additional risk that the inventory in the hub becomes obsolete before sales are recognized.

We extend credit to our customers, sometimes in large amounts, but there is no guarantee every customer will be able to pay our invoices when they become due.

As part of our routine business, we extend credit to customers purchasing our products. As of September 30, 2007, approximately 80% of our net accounts receivable, amounting to $15.0 million in the aggregate, was due from three customers. While our customers may have the ability to pay on the date of shipment or on the date credit is granted, their financial condition could change and there is no guarantee that customers will ever pay the invoices. Rapid changes in our customers financial conditions and risks associated with extending credit to our customers can subject us to a higher financial risk and could have a material adverse effect on our business, financial condition and results of operations.

The semiconductor and communications industries have historically experienced cyclical behavior and prolonged downturns, which could impact our operating results, financial condition and cash flows.

The semiconductor industry has historically exhibited cyclical behavior, which at various times has included significant downturns in customer demand. Though we have not yet experienced any of these industry downturns, we may in the future. Because a significant portion of our expenses is fixed in the near term or is incurred in advance of anticipated sales, we may not be able to decrease our expenses rapidly enough to offset any unanticipated shortfall in revenues. If this situation were to occur, it could adversely affect our operating results, cash flow and financial condition. Furthermore, the semiconductor industry has periodically experienced periods of increased demand and production constraints. If this happens in the future, we may not be able to produce sufficient quantities of our products to meet the increased demand. We may also have difficulty in obtaining sufficient manufacturing, assembly and test resources from our manufacturers. Any factor adversely affecting the semiconductor industry in general, or the particular segments of the industry that our products target, may adversely affect our ability to generate revenue and could negatively impact our operating results.

Additionally, the communications industry has experienced pronounced downturns, and these cycles may continue in the future. To respond to a downturn, many service providers, OEMs and ODMs may slow their research and development activities, cancel or delay new product development, reduce their inventories and take a cautious approach to acquiring products, which would have a significant negative impact on our business. If this situation were to occur, it could adversely affect our operating results, cash flow and financial condition. In

the future, any of these trends may also cause our operating results to fluctuate significantly from period to period, which may increase the volatility of the price of our stock.

We depend on a limited number of third parties to manufacture, assemble and test our products which reduces our control over key aspects of our products and their availability.

We do not own or operate a manufacturing, assembly or test facility for our products. Rather, we outsource the manufacture, assembly and testing of our products to third party subcontractors including Taiwan Semiconductor Manufacturing Company, or TSMC, Jazz Technologies, Inc., Amkor Technology, Inc., and Giga Solution Tech. Co., Ltd. Accordingly, we are greatly dependent on a limited number of suppliers to deliver quality products on time. Our reliance on sole or limited suppliers involves several risks, including susceptibility to increased manufacturing costs if competition for foundry capacity intensifies and reduced control over the following:

- supply of our products available for sale;
- pricing, quality and timely delivery of our products;
- prices and availability of components for our products; and
- production capacity for our products.

Because we rely on a limited number of third party manufacturers, if we were required to change contract manufacturers or one of our contract manufacturers became unable or unwilling to continue manufacturing our products, we may sustain lost revenues, increased costs and damage to our customer relationships. In addition, we would need to expend significant time and effort to locate and qualify new third party manufacturers, if available.

Manufacturing defects may not be detected by the testing process performed by our subcontractors. If defects are discovered after we have shipped our products, we may be exposed to warranty and consequential damages claims from our customers. Such claims may have a significant adverse impact on our revenues and operating results. Furthermore, if we are unable to deliver quality products, our reputation would be harmed, which could result in the loss of future orders and business with our customers.

When demand for manufacturing capacity is high, we may take various actions to try to secure sufficient capacity, which may be costly and negatively impact our operating results.

The ability of each of our subcontractors manufacturing facilities to provide us with chipsets is limited by their available capacity and existing obligations. Although we have purchase order commitments to supply specified levels of products to our customers, we do not have a guaranteed level of production capacity from any of our subcontractors facilities to produce our products. Facility capacity may not be available when we need it or at reasonable prices. In addition, our subcontractors may allocate capacity to the production of other companies products and thereby reduce deliveries to us on short notice.

In order to secure sufficient manufacturing facility capacity when demand is high and mitigate the risks associated with an inability to meet our customers demands for our products, we may enter into various arrangements with subcontractors that could be costly and harm our operating results, including:

- option payments or other prepayments to a subcontractor;
- nonrefundable deposits with or loans to subcontractors in exchange for capacity commitments;
- contracts that commit us to purchase specified quantities of components over extended periods; and

purchase of testing equipment for specific use at the facilities of our subcontractors.

We may not be able to make any such arrangements in a timely fashion or at all, and any arrangements may be costly, reduce our financial flexibility and not be on terms favorable to us. Moreover, if we are able to secure capacity, we may be obligated to use all of that capacity or incur penalties. These penalties and obligations may be expensive and require significant capital and could harm our business.

We believe that transitioning certain of our silicon products to newer or better manufacturing process technologies will be important to our future competitive position. If we fail to make this transition efficiently, our competitive position could be seriously harmed.

We continually evaluate the benefits, on a product-by-product basis, of migrating to higher performance or lower cost process technologies in order to produce higher performance, more efficient or better integrated circuits because we believe this migration is required to remain competitive. Other companies in our industry have experienced difficulty in migrating to new process technologies and, consequently, have suffered reduced yields, delays in product deliveries and increased expense levels. We may experience similar difficulties. Moreover, we are dependent on our relationships with subcontractors to successfully migrate to newer or better process technologies. Our third party manufacturers may not make newer or better process technologies available to us on a timely or cost-effective basis, if at all. If our third party manufacturers do not make newer or better manufacturing process technologies available to us on a timely or cost-effective basis, or if we experience difficulties in migrating to these processes, it could have a material adverse effect on our competitive position and business prospects.

We rely on third party sales representatives to assist in selling our products, and the failure of these representatives to perform as expected could reduce our future sales.

We sell our products to some of our customers through third party sales representatives. Our relationships with some of these third party sales representatives are relatively new and we are unable to predict the extent to which our third party sales representatives will be successful in marketing and selling our products. Moreover, many of our third party sales representatives also market and sell competing products. Our third party sales representatives may terminate their relationships with us at any time, or with short notice and may give greater attention to the products sold by our competitors. Our future performance will also depend, in part, on our ability to attract additional third party sales representatives that will be able to market our products effectively, especially in markets in which we have not previously distributed our products. If we cannot retain our current third party sales representatives and recruit additional or replacement third party sales representatives, our revenues and operating results could be harmed.

Our products may contain defects or errors which may adversely affect their market acceptance and our reputation and expose us to product liability claims.

Our products are very complex and may contain defects or errors, especially when first introduced or when new versions are released. Despite testing, errors may occur. Product errors could affect the performance of our products, delay the development or release of new products or new versions of products, adversely affect our reputation and our customers willingness to buy products from us, and adversely affect market acceptance or perception of our products. Any such errors or delays in releasing new products or new versions of products or allegations of unsatisfactory performance could cause us to lose revenue or market share, increase our service costs, cause us to incur substantial costs in redesigning our products, subject us to liability for damages and divert our resources from other tasks. Our products must successfully interoperate with products from other vendors. As a result, when problems occur in a device or application in which our product is used, it may be difficult to identify the sources of these problems. The occurrence of hardware and software errors, whether or not caused by our products, could result in the delay or loss of market acceptance of our products, and therefore delay our ability to recognize revenue from sales, and any necessary revisions may cause us to incur significant expenses. Moreover, since one of the key benefits of our home networking products is reduction of the need for service providers to dispatch service vehicles to customer premises, often referred to as truck rolls, problems with our

products would likely result in a greater number of truck rolls and this in turn could adversely affect our sales. The occurrence of any such problems could harm our business, operating results and financial condition.

Any limitation of liability provisions in our standard terms and conditions of sale may not fully or effectively protect us from claims as a result of federal, state or local laws or ordinances or unfavorable judicial decisions in the United States or other countries. The use of our products also entails the risk of product liability claims. We maintain insurance to protect against certain claims associated with the use of our products, but our insurance coverage may not adequately cover any claim asserted against us. In addition, even claims that ultimately are unsuccessful could result in our expenditure of funds in litigation and divert management s time and other resources.

We depend on key personnel to operate our business, and if we are unable to retain our current personnel and hire additional qualified personnel, our ability to develop and successfully market our products could be harmed.

We believe our future success will depend in large part upon our ability to attract and retain highly skilled managerial, engineering and sales and marketing personnel. There is intense competition for qualified personnel in the markets in which we compete. Moreover, the cost of living in the San Diego area, where our corporate headquarters are located, has been an impediment to attracting new employees in the past, and we expect that this will continue to impair our ability to attract and retain employees in the future. The loss of any key employees, including Patrick Henry, our Chief Executive Officer, other members of our senior management or our senior engineering personnel, or an inability to attract additional qualified personnel, including engineers and sales and marketing personnel, could delay the development, introduction and sale of our products and our ability to execute our business strategy may suffer. We do not currently have any key person life insurance covering any executive officer or employee or employment agreements with most of our employees.

If we fail to comply with environmental regulatory requirements, our operating results could be adversely affected.

We face increasing complexity in our product design and procurement operations as we adjust to requirements relating to the materials composition of many of our products. The European Union has adopted certain directives to facilitate the recycling of electrical and electronic equipment sold in the European Union, including the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, or RoHS, directive that restricts the use of lead, mercury and certain other substances in electrical and electronic products placed on the market in the European Union after July 1, 2006. We have incurred costs in connection with our compliance with these environmental laws and regulations, such as costs related to eliminating lead from our semiconductor product packaging. Other environmental regulations may be enacted in the future, including in the United States, that require us to reengineer our products to utilize components that are compatible with these regulations, and this reengineering and component substitution may result in additional costs to us or disrupt our operations or logistics. If we or the third party manufacturers of our products are unable to meet future environmental regulations in a timely manner, it could have a material adverse effect on our business, results of operations and financial condition.

Certain of our customers products and service providers services are subject to governmental regulation.

Governmental regulation could place constraints on our customers and service providers services and consequently reduce our customers demand for our products. For example, the Federal Communications Commission, or FCC, has broad jurisdiction over products that emit radio frequency signals in the United States. Similar governmental agencies regulate these products in other countries. Moreover, laws and regulations regarding local cable franchising could have an adverse effect on Verizon s and other service providers ability to compete in the HD video and multimedia content delivery market. Although most of our products are not directly subject to current regulations of the FCC or any other federal or state communications regulatory agency, much

of the equipment into which these products are incorporated is subject to direct governmental regulation. Accordingly, the effects of regulation on our customers or the industries in which they operate may, in turn, impede sales of our products. For example, demand for these products will decrease if equipment into which they are incorporated fails to comply with FCC specifications.

Our failure to raise additional capital or generate the significant capital necessary to expand our operations and invest in new products could reduce our ability to compete and could harm our business.

We intend to continue spending substantial amounts in connection with our expansion in order to grow our business. We may need to obtain additional financing to pursue our business strategy, develop new products, respond to competition and market opportunities and acquire complementary businesses or technologies. We may not be able to obtain such financing on favorable terms or at all. If we were to raise additional capital through further sales of our equity securities, our stockholders would suffer dilution of their equity ownership. If we engage in debt financing, we may be required to accept terms that restrict our ability to incur additional indebtedness, prohibit us from paying dividends, repurchasing our stock or making investments, and force us to maintain specified liquidity or other ratios, any of which could harm our business, operating results and financial condition. If we need additional capital and cannot raise it on acceptable terms, we may not be able to, among other things:

- develop or enhance our products;
- continue to expand our product development and sales and marketing organizations;
- acquire complementary technologies, products or businesses;
- expand operations, in the United States or internationally;
- hire, train and retain employees; or
- respond to competitive pressures or unanticipated working capital requirements.

Our failure to do any of these things could seriously harm our ability to execute our business strategy and may force us to curtail our research and development plans or existing operations.

Adverse U.S. and international economic conditions may adversely affect our revenues, margins and profitability.

Adverse economic conditions may result in decreased spending by our customers for our products. In addition, our products, and the services and devices that contain or use our products, are discretionary purchases for consumers. Consumers are generally more willing to make discretionary purchases during periods of favorable economic conditions. As a result of unfavorable economic conditions, including higher interest rates, increased taxation, higher consumer debt levels and lower availability of consumer credit, consumers purchases of discretionary items may decline, which could adversely affect our revenues. Moreover, we may experience adverse conditions in our cost base due to changes in foreign currency exchange rates that reduce the purchasing power of the U.S. dollar, increases in general and administrative expenses and other factors. These conditions may harm our margins and profitability if we are unable to increase the selling prices of our products or reduce our costs sufficiently to offset the effects of effective increases in our costs. Our attempts to offset the effects of cost increases through controlling our expenses, passing cost increases on to our customers or any other method may not succeed.

Maintaining and improving our financial controls and the requirements of being a public company may strain our resources, divert management s attention and affect our ability to attract and retain qualified board members and management.

As a public company, we will be subject to the reporting requirements of the Securities Exchange Act of 1934, or the Exchange Act, the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, and the Nasdaq Stock

Market Rules, or Nasdaq rules. The requirements of these rules and regulations will increase our legal and financial compliance costs, make some activities more difficult, time-consuming or costly and may also place significant strain on our personnel, systems and resources. The Exchange Act will require, among other things, that we file annual, quarterly and current reports with respect to our business, operating results and financial condition.

The Sarbanes-Oxley Act will require, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. Ensuring that we have adequate internal financial and accounting controls and procedures in place is a costly and time-consuming effort that needs to be re-evaluated frequently. We are in the process of documenting, reviewing and, where appropriate, improving our internal controls and procedures in preparation for compliance with the SEC regulations adopted pursuant to Section 404 of the Sarbanes-Oxley Act, which requires annual management assessments of the effectiveness of our internal control over financial reporting and a report by our independent auditors. Both we and our independent auditors will be testing our internal controls in connection with the Section 404 requirements and could, as part of that documentation and testing, identify material weaknesses, significant deficiencies or other areas for further attention or improvement. Implementing any appropriate changes to our internal controls may require specific compliance training for our directors, executive officers and employees, entail substantial costs to modify our existing accounting systems, and take a significant period of time to complete. Such changes may not, however, be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy, or any consequent inability to produce accurate financial statements on a timely basis, could increase our operating costs and could materially impair our ability to operate our business. Moreover, effective internal controls are necessary for us to produce reliable financial reports and are important to help prevent fraud. As a result, our failure to satisfy the requirements of Section 404 on a timely basis could result in the loss of investor confidence in the reliability of our financial statements, which in turn could cause the market value of our common stock to decline.

In accordance with Nasdaq rules, we will be required to maintain a majority independent board of directors. We also expect that the various rules and regulations applicable to public companies will make it more difficult and more expensive for us to maintain directors and officers liability insurance, and we may be required to accept reduced coverage or incur substantially higher costs to maintain coverage. If we are unable to maintain adequate directors and officers insurance, our ability to recruit and retain qualified directors, especially those directors who may be deemed independent for purposes of Nasdaq rules, and executive officers will be significantly curtailed.

Our effective tax rate may increase or fluctuate, and we may not derive the anticipated tax benefits from the planned expansion of our international operations.

Our effective tax rate could be adversely affected by various factors, many of which are outside of our control. Our effective tax rate is directly affected by the relative proportions of revenue and income before taxes in the various domestic and international jurisdictions in which we operate. We are also subject to changing tax laws, regulations, and interpretations in multiple jurisdictions in which we operate as well as the requirements of certain tax rulings. Changes in applicable tax laws may cause fluctuations between reporting periods in which the changes take place. We are in the process of expanding our international operations and staff to better support our expansion into international markets. We anticipate that this expansion will include the implementation of an international organizational structure. As a result of this anticipated change and an expanding international customer base, we expect that an increasing percentage of our consolidated pre-tax income will be derived from, and reinvested in, our international operations. Moreover, we anticipate that this pre-tax income will be subject to foreign tax at relatively lower tax rates when compared to the U.S. federal statutory tax rate and as a consequence, our future effective income tax rate is expected to be lower than the U.S. federal statutory rate. There can be no assurance that significant pre-tax income will be derived from or reinvested in our international operations, or that our international operations and sales will result in a lower effective income tax rate. In addition, our future effective income tax rate could be adversely affected if tax authorities challenge our

international tax structure or if the relative mix of U.S. and international income changes for any reason. Accordingly, there can be no assurance that our effective income tax rate will be less than the U.S. federal statutory rate.

Our ability to utilize our net operating loss and tax credit carryforwards may be limited, which could result in our payment of income taxes earlier than if we were able to fully utilize our net operating loss and tax credit carryforwards.

As of December 31, 2006, Entropic had federal and state net operating loss carryforwards of $22.9 million and $22.5 million, respectively, and federal and state research and development tax credit carryforwards of $3.1 million and $2.3 million, respectively. As of the same dates, RF Magic had federal and state net operating loss carryforwards of $30.7 million and $18.6 million, respectively, and federal and state research and development tax credit carryforwards of $2.8 million and $2.2 million, respectively. The tax benefits related to utilization of net operating loss and tax credit carryforwards may be limited due to ownership changes or as a result of other events. For example, Section 382 of the Internal Revenue Code of 1986, as amended, imposes an annual limitation on the amount of net operating loss carryforwards and tax credit carryforwards that may be used to offset federal taxable income and federal tax liabilities when a corporation has undergone a significant change in its ownership. While prior changes in ownership of Entropic and RF Magic, including as a result of our acquisition of RF Magic, have resulted in annual limitations on the amount of the companies net operating loss and tax credit carryforwards that may be utilized in the future, we do not anticipate that such annual limitations will preclude the utilization of substantially all the net operating loss and tax credit carryforwards described above in the event we become profitable. However, to the extent our use of net operating loss and tax credit carryforwards is further limited by the issuance of common stock in this offering or in future offerings or transactions or by our implementation of an international tax structure or other future events, our income would be subject to cash payments of income tax earlier than it would be if we were able to fully use our net operating loss and tax credit carryforwards without such further limitation.

Risks Related to Our Intellectual Property

Our ability to compete and our business could be jeopardized if we are unable to secure or protect our intellectual property.

We rely on a combination of patent, copyright, trademark and trade secret laws, confidentiality procedures and licensing arrangements to establish and protect our proprietary rights. However, these legal means afford only limited protection and may not adequately protect our rights or permit us to gain or keep any competitive advantage. Our patent applications may not issue as patents at all or they may not issue as patents in a form that will be advantageous to us. Our issued patents and those that may issue in the future may be challenged, invalidated or circumvented, which could limit our ability to stop competitors from marketing related products. Although we have taken steps to protect our intellectual property and proprietary technology, there is no assurance that third parties will not be able to invalidate or design around our patents. Furthermore, although we have entered into confidentiality agreements and intellectual property assignment agreements with our employees, consultants and advisors, such agreements may not be enforceable or may not provide meaningful protection for our trade secrets or other proprietary information in the event of unauthorized use or disclosure or other breaches of the agreements. Moreover, we are required to license any of our patent claims that are essential to implement MoCA specifications to other MoCA members, who could potentially include our competitors, on reasonable and non-discriminatory terms. We may also be required to license our patents and patent applications related to certain band translation switch technology to a third party to be designated by EchoStar, who could potentially be one of our competitors.

Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy or otherwise obtain and use our products or technology. Monitoring unauthorized use of our technology is difficult and we cannot be certain that the steps we have taken to prevent such unauthorized use will be successful, particularly in

foreign countries where the laws may not protect our proprietary rights as comprehensively as in the United States. In addition, if we become aware of a third party s unauthorized use or misappropriation of our technology, it may not be practicable, effective or cost-efficient for us to enforce our intellectual property and contractual rights, particularly where the initiation of a claim might harm our business relationships or risk a costly and protracted lawsuit, including a potential countersuit by a competitor with patents that may implicate our products. If competitors engage in unauthorized use or misappropriation of our technology, our ability to compete effectively could be harmed.

Our participation in patent pools and standard setting organizations, or other business arrangements, may require us to license our patents to competitors and other third parties and limit our ability to enforce or collect royalties for our patents.

In addition to our existing obligations to license our patent claims that are essential to implement the MoCA specifications to other MoCA members, and to license our patents and patent applications related to certain band translation switch technology to a third party to be designated by EchoStar, in the course of participating in patent pools and other standards setting organizations or pursuant to other business arrangements, we may agree to license certain of our technologies on a reasonable and non-discriminatory basis and, as a result, our control over the license of such technologies may be limited. We may also be unable to limit to whom we license some of our technologies, and may be unable to restrict many terms of the license. Consequently, our competitors may obtain the right to use our technology. In addition, our control over the application and quality control of our technologies that are included in patent pools or otherwise necessary for implementing industry standards may be limited.

Any dispute with a MoCA member regarding what patent claims are necessary to implement MoCA specifications could result in litigation which could have an adverse effect on our business.

We are required to grant to other MoCA members a non-exclusive and world-wide license on reasonable and non-discriminatory terms to any of our patent claims that are essential to implement MoCA specifications. If we had a disagreement with a MoCA member regarding which of our patent claims are necessary to implement MoCA specifications, this could result in a lawsuit. Any such lawsuit, regardless of its merits, could be time-consuming, expensive to resolve, divert our management s time and attention and harm our reputation. In addition, any such litigation could result in us being required to license on reasonable and non-discriminatory terms certain of our patent claims which we previously believed did not need to be licensed under our MoCA agreement. This could have an adverse effect on our business and harm our competitive position.

Possible third party claims of infringement of proprietary rights against us, our customers or the service providers that purchase products from our customers, or other intellectual property claims or disputes, could have a material adverse effect on our business, results of operation or financial condition.

The semiconductor industry is characterized by a relatively high level of litigation based on allegations of infringement of proprietary rights. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties exist in the fields in which we are selling and developing products. Because patent applications take many years to issue, currently pending applications, known or unknown to us, may later result in issued patents that we infringe. In addition, third parties continue to actively seek new patents in our field.

We have in the past received and we, our customers or the service providers that purchase products from our customers may in the future receive inquiries from other patent holders and may become subject to claims that we infringe their intellectual property rights. Any intellectual property claim or dispute, regardless of its merits, could force us, our customers or the service providers that purchase our products from our customers to license the third party s patents for substantial royalty payments or cease the sale of the alleged infringing products or use of the alleged infringing technologies, or force us to defend ourselves and possibly our customers or contract manufacturers in litigation. Any cessation of product sales by us, our customers or the service providers that purchase products from our customers could have a substantial negative impact on our revenues. Any litigation,

regardless of its outcome, could result in substantial expense and significant diversion of our management s time and other resources. Moreover, any such litigation could subject us, our customers or the service providers that purchase our products from our customers to significant liability for damages (including treble damages), temporary or permanent injunctions, or the invalidation of proprietary rights or require us, our customers or the service providers that purchase products from our customers to license the third-party patents for substantial royalty or other payments.

In addition, we may also be required to indemnify our customers and contract manufacturers for damages they suffer as a result of such infringement or litigation. For example, we have been contacted by Motorola on two occasions requesting that we indemnify Motorola against claims by third parties that products sold by Motorola that incorporate our products infringe one or more of the third parties patents. No specific amounts of indemnity have been sought. We are currently in the process of evaluating Motorola s requests for indemnity and the underlying third party claims, and at the present time, due to the preliminary nature of the requests and the early status of our investigations, we are unable to predict the ultimate outcome of these matters.

Our use of open source and third party software could impose limitations on our ability to commercialize our products.

We incorporate open source software into our products, including certain open source code which is governed by the GNU General Public License, Lesser GNU General Public License and Common Development and Distribution License. The terms of many open source licenses have not been interpreted by U.S. courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our products. In such event, we could be required to seek licenses from third parties in order to continue offering our products, make our proprietary code generally available in source code form (for example, proprietary code that links to certain open source modules), which would result in our trade secrets being disclosed to the public and the potential loss of intellectual property rights in our software, re-engineer our products, discontinue the sale of our products if re-engineering cannot be accomplished on a cost-effective and timely basis, or become subject to other consequences, any of which could adversely affect our business, operating results and financial condition.

In addition to technologies we have already licensed, we may find that we need to incorporate certain proprietary third party technologies, including software programs, into our products in the future. However, licenses to relevant third party technologies may not be available to us on commercially reasonable terms, if at all. Therefore, we could face delays in product releases until alternative technology can be identified, licensed or developed, and integrated into our current products. Such alternative technology may not be available to us on reasonable terms, if at all, and may ultimately not be as effective as the preferred technology. Any such delays or failures to obtain licenses, if they occur, could materially adversely affect our business, operating results and financial condition.

Because we license some of our software source code directly to customers, we face increased risks that our trade secrets will be exposed through inadvertent or intentional disclosure, which could harm our competitive position or increase our costs.

We license some of our software source code to our customers, which increases the number of people who have access to some of our trade secrets and other proprietary rights. Contractual obligations of our licensees not to disclose or misuse our source code may not be sufficient to prevent such disclosure or misuse. The costs of enforcing contractual rights could substantially increase our operating costs and may not be cost-effective, reasonable under the circumstances or ultimately succeed in protecting our proprietary rights. If our competitors access our source code, they may gain further insight into the technology and design of our products, which would harm our competitive position.

Risks Related to International Operations

We expect a significant portion of our future revenues to come from our international customers, and, as a result, our business may be harmed by political and economic conditions in foreign markets and the challenges associated with operating internationally.

We have derived, and expect to continue to derive, a significant portion of our revenues from international markets. Revenues outside of the United States comprised 99% of Entropic s total revenues for the nine months ended September 30, 2007 and 84%, 91% and 99% of Entropic s total revenues for the fiscal years ended December 31, 2004, 2005 and 2006, respectively. Revenues outside of the United States comprised 89%, 99% and 98% of RF Magic s total revenues for the fiscal years ended December 31, 2004, 2005 and 2006, respectively. International business activities involve certain risks, including:

- difficulties involved in the staffing and management of geographically dispersed operations;
- longer sales cycles in certain countries, especially on initial entry into a new geographical market;
- greater difficulty evaluating a customer s ability to pay, longer accounts receivable payment cycles and greater difficulty in the collection of past-due accounts;
- general economic conditions in each country;
- challenges associated with operating in diverse cultural and legal environments;
- seasonal reductions in business activity specific to certain markets;
- loss of revenue, property and equipment from expropriation, nationalization, war, insurrection, terrorism and other political risks;
- foreign taxes and the overlap of different tax structures, including modifications to the United States tax code as a result of international trade regulations;
- foreign technical standards;
- changes in currency exchange rates; and
- import and export licensing requirements, tariffs, and other trade and travel restrictions.

To the extent our international sales are adversely affected by any of these risks or are otherwise unsuccessful, we could experience a reduction in revenue and our operating results could suffer.

In addition, certain foreign countries where we sell our products, such as China and Korea, have historically limited recognition and enforcement of contractual and intellectual property rights. In particular, we may have difficulty preventing ODMs and OEMs in these countries from incorporating our technologies or trademarks into their products without our authorization or without paying us licensing fees. We may also experience difficulty enforcing our intellectual property rights in these countries, where intellectual property rights are not as respected as they are in the United States, Japan and Europe. Unauthorized use of our technologies and intellectual property rights may dilute or undermine the strength of our brand. Further, if we are not able to adequately monitor the use of our technologies by foreign-based ODMs and OEMs, or

enforce our intellectual property rights in foreign countries, our revenue potential could be adversely affected.

Fluctuations in exchange rates between and among the currencies in which we do business may adversely affect our operating results.

We transact business internationally, currently mainly focusing on Japan, Korea, China and Europe. As a result, we may experience foreign exchange gains or losses due to the volatility of other currencies compared to the U.S. dollar. Our sales have been historically denominated in U.S. dollars and an increase in the U.S. dollar relative to the currencies of the countries in which our customers operate could materially affect the demand of

our non-U.S. customers for our products, thereby forcing these customers to reduce their orders, which would adversely affect our business. We incur a portion of our expenses in currencies other than the U.S. dollar, including New Israeli Shekels. Our operating results are denominated in U.S. dollars and the difference in exchange rates in one period compared to another may directly impact period to period comparisons of our operating results. Furthermore, currency exchange rates have been especially volatile in the recent past and these currency fluctuations may make it difficult for us to predict our results.

Currently, we have not implemented any strategies to mitigate risks related to the impact of fluctuations in currency exchange rates. Even if we were to implement hedging strategies, not every exposure can be hedged, and, where hedges are put in place based on expected foreign exchange exposure, they are based on forecasts which may vary or which may later prove to have been inaccurate. Failure to hedge successfully or anticipate currency risks properly could adversely affect our operating results. We cannot predict future currency exchange rate changes.

Our products are subject to export and import controls that could subject us to liability or impair our ability to compete in international markets.

Our products are subject to U.S. export controls and may be exported outside the United States only with the required level of export license or through an export license exception, in most cases because we incorporate encryption technology into our products. In addition, various countries regulate the import of certain encryption technology and have enacted laws that could limit our ability to distribute our products or could limit our customers ability to implement our products in those countries. Changes in our products or changes in export and import regulations may create delays in the introduction of our products in international markets, prevent our customers with international operations from deploying our products throughout their global systems or, in some cases, prevent the export or import of our products to certain countries altogether. Any change in export or import regulations or related legislation, or change in the countries, persons or technologies targeted by such regulations or legislation, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers internationally.

In addition, we may be subject to customs duties and export quotas, which could have a significant impact on our revenue and profitability. The future imposition of significant increases in the level of customs duties or export quotas could have a material adverse effect on our business.

Our third party contractors are concentrated primarily in areas subject to earthquakes and other natural disasters. Any disruption to the operations of these contractors could cause significant delays in the production or shipment of our products.

Substantially all of our products are manufactured by third party contractors located in the Pacific Rim. The risk of an earthquake in these areas is significant due to the proximity of major earthquake fault lines to the facilities of our foundry, assembly and test subcontractors. For example, in December 2006 and June 2003, major earthquakes occurred in Taiwan. The occurrence of additional earthquakes or other natural disasters could result in the disruption of our foundry or assembly and test capacity. Any disruption resulting from such events could cause significant delays in the production or shipment of our products until we are able to shift our manufacturing, assembling or testing from the affected contractor to another third party vendor. We may not be able to obtain alternate capacity on favorable terms, if at all.

Risks Related to This Offering and Ownership of Our Common Stock

There may not be a viable public market for our common stock.

Prior to this offering, there has been no public market for our common stock. The initial public offering price for our common stock will be determined through negotiations between us and the representatives of the underwriters and may not be indicative of the market price of our common stock following this offering. If you

purchase shares of our common stock, you may not be able to resell those shares at or above the initial public offering price. We cannot predict the extent to which investor interest in our company will lead to the development of an active trading market on the Nasdaq Global Market or any other stock market or how liquid any such market might become. An active public market for our common stock may not develop or be sustained after the offering. If an active public market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you, or at all.

There has been no prior market for our common stock, our stock price may be volatile or may decline regardless of our operating performance, and you may not be able to resell your shares at or above the initial public offering price.

Following this offering, the market price for our common stock is likely to be volatile, in part because our shares have not been traded publicly. In addition, the market price of our common stock may fluctuate significantly in response to a number of factors, most of which we cannot control, including:

- price and volume fluctuations in the overall stock market;
- changes in operating performance and stock market valuations of other technology companies generally, or those that sell semiconductor products in particular;
- the timing of customer or service provider orders that may cause quarterly or other periodic fluctuations in our results that may, in turn, affect the market price of our common stock;
- the seasonal nature of our sales;
- the timing of revenue recognition on sales arrangements, which may include multiple deliverables, and the effect of our use of inventory hubbing arrangements;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- changes in financial estimates by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;
- ratings downgrades by any securities analysts who follow our common stock;
- the public s response to press releases or other public announcements by us or third parties, including our filings with the SEC and announcements relating to product development, litigation and intellectual property impacting us or our business;
- market conditions or trends in our industry or the economy as a whole;
- the development and sustainability of an active trading market for our common stock;
- future sales of our common stock by our executive officers, directors and significant stockholders;

- other events or factors, including those resulting from war, incidents of terrorism, natural disasters or responses to these events; and
- changes in accounting principles.

In addition, the stock markets, and in particular the Nasdaq Global Market, have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies. Stock prices of many technology companies have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. In the past, stockholders have instituted securities class action litigation following periods of market volatility. If we were involved in securities litigation, we could incur substantial costs and our resources and the attention of management could be diverted from our business.

Future sales of our common stock or securities convertible into our common stock may depress our stock price.

Sales of a substantial number of shares of our common stock or securities convertible into our common stock in the public market could occur at any time. These sales, or the perception in the market that the holders of a large number of shares intend to sell shares, could reduce the market price of our common stock. After this offering, we will have 67,614,775 outstanding shares of common stock based on the number of shares outstanding as of September 30, 2007. This includes the shares that we are selling in this offering, which may be resold in the public market immediately unless held by an affiliate of ours. Of the remaining shares, 26,912,605 shares may be sold upon the expiration of lock-up agreements 180 days after the date of this offering and the remaining shares may be sold from time to time after the expiration of such lock-up agreements and applicable holding periods specified in Rule 144 and Rule 145 under the Securities Act of 1933, as amended, or the Securities Act, unless the shares are held by an affiliate of ours, as more fully described in the Shares Eligible for Future Sale section of this prospectus. In addition, as of September 30, 2007, we had granted outstanding options to purchase 6,941,566 shares of our common stock, rights under put and call option agreements to acquire 182,201 shares of our common stock and outstanding warrants covering up to 940,690 shares of our common stock that, if exercised, would result in these additional shares becoming available for sale upon expiration of the lock-up agreements.

Moreover, after this offering, based on the number of shares outstanding as of September 30, 2007, holders of up to approximately 44,919,898 shares of common stock (including shares of our common stock issuable upon the exercise of warrants) will have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. These rights will continue following this offering and will terminate two years following the completion of this offering, or for any particular holder with registration rights who holds less than one percent of our outstanding capital stock, at any time following this offering when all securities held by that stockholder that are subject to registration rights may be sold pursuant to Rule 144 under the Securities Act within a single 90 day period. We also intend to register all shares of common stock that we may issue after this offering under our equity compensation plans. Once we register these shares, they can be freely sold in the public market upon issuance, subject to the lock-up agreements described above.

If a large number of our shares of our common stock or securities convertible into our common stock are sold in the public market after they become eligible for sale, the sales could reduce the trading price of our common stock and impede our ability to raise future capital.

Anti-takeover provisions in our charter documents and Delaware law might deter acquisition bids for us that you might consider favorable.

Our amended and restated certificate of incorporation and bylaws contain provisions that may make the acquisition of our company more difficult without the approval of our board of directors. These provisions:

- establish a classified board of directors so that not all members of our board are elected at one time;
- authorize the issuance of undesignated preferred stock, the terms of which may be established and shares of which may be issued without stockholder approval, and which may include rights superior to the rights of the holders of common stock;
- prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;
- provide that the board of directors is expressly authorized to make, alter, or repeal our bylaws;
- establish advance notice requirements for nominations for elections to our board or for proposing matters that can be acted upon by stockholders at stockholder meetings; and

provide that in addition to any vote required by law or by our amended and restated certificate of incorporation, the approval by holders of at least 66- 2/3% of our then outstanding common stock is required to adopt, amend or repeal any provision of our amended and restated bylaws.

In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law which, subject to certain exceptions, prohibits stockholders owning in excess of 15% of our outstanding voting stock from merging or combining with us. These anti-takeover provisions and other provisions under Delaware law could discourage, delay or prevent a transaction involving a change in control of our company, even if doing so would benefit our stockholders. These provisions could also discourage proxy contests and make it more difficult for you and other stockholders to elect directors of your choosing and cause us to take other corporate actions you desire.

If you purchase shares of common stock sold in this offering, you will incur immediate and substantial dilution.

If you purchase shares of common stock in this offering, you will incur immediate and substantial dilution in the amount of $5.05 per share because the initial public offering price of $6.00 per share is substantially higher than the pro forma net book value per share of our outstanding common stock. This dilution is due in large part to the fact that our earlier investors paid substantially less that the initial public offering price when they purchased their shares. In addition, you may also experience additional dilution upon future equity issuances or the exercise of stock options to purchase common stock granted to our employees, consultants and directors under our stock option and equity incentive plans. See the Dilution section of this prospectus.

Our existing principal stockholders, executive officers and directors will continue to have substantial control over the company after this offering, which may prevent you and other stockholders from influencing significant corporate decisions and may harm the market price of our common stock.

Upon completion of this offering, assuming no exercise of the underwriters over-allotment option and including stock options that are exercisable within 60 days of November 30, 2007, our existing principal stockholders, executive officers and directors, together with their affiliates, will beneficially own, in the aggregate, approximately 29.5% of our outstanding common stock. These stockholders may have interests that conflict with yours and, if acting together, have the ability to determine the outcome of matters submitted to our stockholders for approval, including the election and removal of directors and any merger, consolidation or sale of all or substantially all of our assets. In addition, these stockholders, acting together, may have the ability to control our management and affairs. Accordingly, this concentration of ownership may harm the market price of our common stock by:

delaying, deferring or preventing a change in control;

impeding a merger, consolidation, takeover or other business combination involving us; or

discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have and may never obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our stock would be negatively impacted. If we obtain securities or industry analyst coverage and if one or more of the analysts who covers us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, demand for our stock could decrease, which could cause our stock price and trading volume to decline.

Because management has broad discretion as to the use of the net proceeds from this offering, you may not agree with how we use them, and such proceeds may not be applied successfully.

We anticipate using approximately $9.0 million of the net proceeds to us from this offering for the repayment of outstanding indebtedness as described in Use of Proceeds. We anticipate using the balance of the net proceeds to us from this offering for working capital and general corporate purposes. A portion of the net proceeds to us may also be used to acquire or license products, technologies or businesses. However, apart from the repayment of such outstanding indebtedness, we do not currently have any specific plans for use of the proceeds of this offering, nor have we performed studies or made preliminary decisions with respect to the best use of the capital resources resulting from this offering. As such, our management will have broad discretion in the application of the net proceeds from this offering and could spend the proceeds in ways that do not necessarily improve our operating results or enhance the value of our common stock. You will be relying on the judgment of our management concerning these uses and you will not have the opportunity, as part of your investment decision, to assess whether the proceeds are being used appropriately. The failure of our management to apply these funds effectively could result in unfavorable returns and uncertainty about our prospects, each of which could cause the price of our common stock to decline.

We do not expect to pay any cash dividends for the foreseeable future.

The continued expansion of our business will require substantial funding. In addition, the terms of our loan and security agreements with Horizon Technology Funding Company LLC and Silicon Valley Bank prohibit us from paying cash dividends under certain circumstances. Accordingly, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares in this offering, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock.

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements. The forward-looking statements are contained principally in the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business. These statements relate to future events or to our future financial performance and involve known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Forward-looking statements include, but are not limited to, statements about:

- our ability to achieve or sustain profitability;
- the competitive nature of the markets in which we compete and the effect of competing products and technologies;
- the demand for our products;
- the adoption of our technologies and the MoCA standard;
- the competitive nature of service providers;
- our dependence on manufacturers, sales representatives and other third parties;
- our ability to create and introduce new products and technologies;
- our ability to effectively manage our growth;
- our ability to successfully acquire companies or technologies that would complement our business;
- our ability to realize the expected benefits of, and to successfully integrate, acquired companies including RF Magic;
- the ability of our contract manufacturers to produce and deliver products in a timely manner and at satisfactory prices;
- the transitioning of our silicon products to improved manufacturing process technologies;
- our ability to protect our intellectual property and avoid infringement of the intellectual property of others;
- our reliance on our key personnel;

- the effects of government regulation;
- our ability to obtain sufficient capital to expand our business;
- the cyclical nature of our industry;
- our ability to effectively transact business in foreign countries;
- our ability to achieve and maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act; and
- our current and future compensation structure and philosophy.

In some cases, you can identify these statements by terms such as anticipates, believes, could, estimates, expects, intends, may, plans, predicts, projects, should, will, would or the negative of those terms, and similar expressions. These forward-looking statements reflect our management s beliefs and views with respect to future events and are based on estimates and assumptions as of the date of this prospectus and are subject to risks and uncertainties. We discuss many of these risks in greater detail under the heading Risk Factors. Moreover, we operate in a very competitive and rapidly changing environment. New risks emerge from time to time. It is not possible for our management to predict all risks, nor

can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements we may make. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

You should read this prospectus and the documents that we reference in this prospectus and have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect. We qualify all of the forward-looking statements in this prospectus by these cautionary statements.

Except as required by law, we assume no obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

USE OF PROCEEDS

We estimate that the net proceeds to us from this offering will be approximately $41.3 million, based upon the initial public offering price of $6.00 per share, and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

The principal purposes of this offering are to obtain additional capital to support our operations, create a public market for our common stock and facilitate our future access to the public equity markets.

We anticipate using approximately $9.0 million of the net proceeds to us from this offering for the repayment of all principal and accrued interest owed under RF Magic s credit facility with Horizon and under Entropic s credit facility with Horizon and Silicon Valley Bank.

For RF Magic s credit facility with Horizon, we anticipate repaying approximately $7.0 million in principal and accrued interest. We used the proceeds of this indebtedness for working capital and general corporate purposes. Interest accrues on the outstanding indebtedness at a rate of the greater of 11.9% or the LIBOR rate plus 5.33% per annum. For $5.0 million of principal borrowed, monthly interest only payments are payable through November 2007. Beginning in December 2007, principal and interest payments are payable over 30 months on the outstanding principal. For the other $2.0 million of principal borrowed, monthly interest only payments are payable through June 2008. Beginning in June 2008, principal and interest payments are payable over 30 months on the outstanding principal.

For Entropic s credit facility with Horizon and Silicon Valley Bank, we anticipate repaying approximately $2.0 million in principal and accrued interest. We used the proceeds of this indebtedness for working capital and general corporate purposes. Interest accrues on the outstanding indebtedness at a rate of the greater of 11.85% or 11.85% plus the difference between the LIBOR rate and 5.32%. For both tranches of $1.0 million of principal borrowed, monthly interest only payments are payable through March 2008. Beginning in April 2008, principal and interest payments are payable over 30 months on the outstanding principal.

Under both credit facilities, we have calculated accrued interest to be paid based on an assumed repayment date of January 1, 2008. The actual amount of accrued interest will depend upon the actual date of repayment which is anticipated to take place shortly after the closing date of this offering. Moreover, a prepayment penalty equaling 1.0% of the principal amount then outstanding under the RF Magic credit facility ($70,000 based on the principal amounts set forth above) and 2.0% of the principal amount then outstanding under the Entropic credit facility ($40,000 based on the principal amounts set forth above) will apply if the net proceeds received by Horizon and Silicon Valley Bank as selling stockholders in this offering do not exceed a threshold amount specified in the applicable loan and security agreements. Since the initial public offering price is $6.00 per share, the prepayment penalty under the RF Magic credit facility will apply but the prepayment penalty under the Entropic credit facility will not apply. We intend to use net proceeds to us from this offering to pay the prepayment penalty under the RF Magic credit facility.

Apart from the repayment of outstanding indebtedness as described above, we currently have no specific plans for the use of the net proceeds to us from this offering, nor have we performed studies or made preliminary decisions with respect to the best use of the capital resources resulting from this offering. We anticipate using the balance of the net proceeds to us from this offering for working capital and general corporate purposes. In addition, we may use a portion of the net proceeds to us from this offering to acquire or license products, technologies or businesses, but we currently have no agreements or commitments relating to material acquisitions or licenses. Accordingly, our management will have broad discretion in the application of our net proceeds from this offering, and investors will be relying on the judgment of our management regarding the application of these proceeds.

Pending their use, we plan to invest the net proceeds to us from this offering in short- and intermediate-term, interest-bearing obligations, investment-grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

DIVIDEND POLICY

We have never declared or paid any cash dividends on our capital stock. We currently intend to retain all available funds and any future earnings to support our operations and finance the growth and development of our business. We do not intend to pay cash dividends on our common stock for the foreseeable future. Any future determination related to dividend policy will be made at the discretion of our board of directors. In addition, the terms of our loan and security agreements prohibit us from paying cash dividends under certain circumstances.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2007:

- on an actual basis; and

- on an as adjusted basis to give effect to (1) our filing of an amended and restated certificate of incorporation, (2) the conversion of all of our outstanding preferred stock into shares of common stock which will occur immediately prior to the closing of this offering, (3) our receipt of the estimated net proceeds from the sale of shares of common stock by us in this offering at the initial offering price of $6.00 per share, after deducting underwriting discounts and commissions and estimated offering expenses payable by us, and (4) the repayment of $9.0 million of outstanding principal and accrued interest as described in Use of Proceeds, a prepayment penalty of $70,000 and the write-off of $506,000 of unamortized debt discount.

You should read the information in this table together with our financial statements and accompanying notes and Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus.

	As of September 30, 2007	
	Actual	As Adjusted
	(unaudited) (in thousands, except per share data)	
Debt, software license and capital lease obligations current and long-term	$ 9,003	$ 509
Redeemable convertible preferred stock, $0.001 par value:		
145,754 shares authorized and 142,595 shares issued and outstanding, actual; no shares authorized, issued or outstanding, as adjusted	178,879	
Stockholders (deficit) equity:		
Common stock, $0.001 par value: 250,000 shares authorized and 14,718 shares issued and outstanding, actual; 200,000 shares authorized and 67,615 shares issued and outstanding, as adjusted	14	68
Preferred stock, $0.001 par value: no shares authorized, issued or outstanding, actual; 10,000 shares authorized and no shares issued and outstanding, as adjusted		
Additional paid-in capital	58,711	278,876
Accumulated deficit	(91,788)	(92,364)
Total stockholders (deficit) equity	(33,063)	186,580
Total capitalization	$ 154,819	$ 187,089

The number of shares of our common stock outstanding as of September 30, 2007 excludes the following:

- 6,941,566 shares of common stock subject to options outstanding as of September 30, 2007 under our stock option and equity incentive plans, with a weighted average exercise price of $1.13 per share;

- 182,201 shares of common stock reserved for issuance at September 30, 2007 pursuant to put and call option agreements between Entropic, RF Magic, and certain holders of options to purchase RF Magic common stock;

940,690 shares of common stock subject to warrants outstanding as of September 30, 2007, with a weighted average exercise price of $2.22 per share; and

4,307,691 shares of common stock reserved for future issuance under our 2007 equity incentive plan, 2007 non-employee directors stock option plan and 2007 employee stock purchase plan, each of which will become effective upon the signing of the underwriting agreement for this offering. The share reserve of our 2007 equity incentive plan will also include (and the number of shares of our common stock outstanding as of September 30, 2007 excludes) the unallocated shares remaining available for issuance under our existing stock option and equity incentive plans as of the effective date of our 2007 equity incentive plan (394,859 shares as of September 30, 2007), plus any shares that thereafter would otherwise revert to the existing plans but for their termination. In addition, the share reserves of all of the 2007 plans will be subject to automatic annual increases in accordance with the terms of the plans.

DILUTION

If you invest in our common stock in this offering, your ownership interest will be diluted to the extent of the difference between the initial public offering price per share of our common stock and the pro forma as adjusted net tangible book value per share of our common stock after this offering. The historical net tangible book value (deficit) of our common stock as of September 30, 2007 was approximately $(156.0) million, or approximately $(10.60) per share of common stock, based on the number of shares of common stock outstanding as of September 30, 2007. Historical net tangible book value (deficit) per share is determined by dividing the number of shares of our common stock outstanding as of September 30, 2007 into our total tangible assets (total assets less intangible assets) less total liabilities and redeemable convertible preferred stock. Pro forma net tangible book value as of September 30, 2007 of approximately $22.9 million, or $0.38 per share of our common stock, represents our historical net tangible book value as of September 30, 2007, after giving effect to the conversion of all shares of our preferred stock outstanding as of September 30, 2007 into common stock immediately prior to the closing of this offering.

Investors participating in this offering will incur immediate, substantial dilution. After giving effect to the sale of common stock by us in this offering at the initial public offering price of $6.00 per share, and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, our pro forma as adjusted net tangible book value as of September 30, 2007 would have been approximately $64.3 million, or approximately $0.95 per share of common stock. This represents an immediate increase in pro forma as adjusted net tangible book value of $0.57 per share to existing common stockholders, and an immediate dilution of $5.05 per share to investors participating in this offering. The following table illustrates this per share dilution:

Initial public offering price per share		$ 6.00
Historical net tangible book value (deficit) per share as of September 30, 2007	$ (10.60)	
Pro forma increase in net tangible book value per share as of September 30, 2007 attributable to conversion of preferred stock	$ 10.98	
Pro forma net tangible book value per share as of September 30, 2007	$ 0.38	
Pro forma increase in net tangible book value per share attributable to investors participating in this offering	$ 0.57	
Pro forma as adjusted net tangible book value per share after this offering		$ 0.95
Dilution per share to investors participating in this offering		$ 5.05

The following table summarizes, on a pro forma basis as of September 30, 2007, the differences between the number of shares of common and preferred stock purchased from us, the total consideration, which includes cash received from the exercise of stock options, the value of common and preferred stock issued to employees and to non-employees, and the value of common and preferred stock issued in connection with business combinations, and the average price per share paid by existing stockholders and by investors participating in this offering, before deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, at the initial public offering price of $6.00 per share.

	Shares Purchased		Total Consideration		Average Price
	Number	Percent	Amount	Percent	Per Share
Existing stockholders before this offering	59,614,775	88.2%	$ 225,776,581	82.5%	$ 3.79
Investors participating in this offering	8,000,000	11.8	48,000,000	17.5	$ 6.00
Total	67,614,775	100.0%	$ 273,776,581	100.0%	

The discussion and tables above assume no exercise of any outstanding options, warrants or put and call rights.

The number of shares of our common stock outstanding as of September 30, 2007 excludes the following:

- 6,941,566 shares of common stock subject to options outstanding under our stock option and equity incentive plans, with a weighted average exercise price of $1.13 per share;

- 182,201 shares of common stock reserved for issuance pursuant to put and call option agreements between Entropic, RF Magic, and certain holders of options to purchase RF Magic common stock;

- 940,690 shares of common stock subject to outstanding warrants, with a weighted average exercise price of $2.22 per share; and

- 4,307,691 shares of common stock reserved for future issuance under our 2007 equity incentive plan, 2007 non-employee directors stock option plan and 2007 employee stock purchase plan, each of which will become effective upon the signing of the underwriting agreement for this offering. The share reserve of our 2007 equity incentive plan will also include (and the number of shares of our common stock outstanding as of September 30, 2007 excludes) the unallocated shares remaining available for issuance under our existing stock option and equity incentive plans as of the effective date of our 2007 equity incentive plan (394,859 shares as of September 30, 2007), plus any shares that thereafter would otherwise revert to the existing plans but for their termination. In addition, the share reserves of all of the 2007 plans will be subject to automatic annual increases in accordance with the terms of the plans.

To the extent that any outstanding options, warrants or put and call rights to purchase shares of our stock are exercised, investors in this offering will experience further dilution. The table below assumes the exercise of all such options, warrants and put and call rights outstanding or exercisable as of September 30, 2007 and the conversion of all shares of our preferred stock outstanding as of September 30, 2007 into shares of our common stock (based on the initial public offering price of $6.00 per share).

	Shares Purchased		**Total Consideration**		**Average Price**
	Number	**Percent**	**Amount**	**Percent**	**Per Share**
Existing stockholders before this offering	59,614,775	78.8%	$ 225,776,581	79.5%	$ 3.79
Shares subject to options, warrants and put and call rights	8,064,457	10.6	10,046,596	3.5	$ 1.25
Investors participating in this offering	8,000,000	10.6	48,000,000	17.0	$ 6.00
Total	75,679,232	100.0%	$ 283,823,177	100.0%	

Furthermore, we may choose to raise additional capital through the sale of equity or convertible debt securities due to market conditions or strategic considerations even if we believe we have sufficient funds for our current or future operating plans. To the extent that any of the options, warrants or put or call rights described above are exercised, new stock awards are issued under our equity incentive plans or we issue additional shares of common stock or other equity securities in the future, there will be further dilution to investors participating in this offering.

UNAUDITED PRO FORMA CONDENSED CONSOLIDATED

COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed consolidated combined statements of operations for the year ended December 31, 2006 and the nine months ended September 30, 2007 are based on the historical statements of operations of Entropic and RF Magic giving effect to our acquisition of RF Magic as if the acquisition had occurred on January 1, 2006.

The unaudited pro forma condensed consolidated combined financial statements are based on estimates and assumptions as set forth in the notes to such statements. The unaudited pro forma condensed consolidated combined financial statements are not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during these periods. This information should be read in conjunction with the historical financial statements and related notes of Entropic and RF Magic included in this prospectus, and in conjunction with the accompanying notes to these unaudited pro forma condensed consolidated combined financial statements.

Entropic Communications, Inc.

Unaudited Pro Forma Condensed Consolidated Combined Statement of Operations

Year Ended December 31, 2006

(in thousands, except per share data)

	Entropic	RF Magic	Notes	Pro Forma Adjustments	Pro Forma Combined
				(unaudited)	
Net revenues	$ 41,471	$ 26,183		$	$ 67,654
Cost of net revenues	31,099	10,579	(a)(c)	7,897	49,575
Gross profit	10,372	15,604		(7,897)	18,079
Operating expenses:					
Research and development	11,601	11,182	(c)	1,396	24,179
Sales and marketing	4,112	3,682	(c)	528	8,322
General and administrative	2,192	1,927	(c)	1,225	5,344
Amortization of purchased intangible assets			(b)	3,533	3,533
Total operating expenses	17,905	16,791		6,682	41,378
Loss from operations	(7,533)	(1,187)		(14,579)	(23,299)
Interest income (expense), net	883	(241)	(e)	30	672
Loss on fair value of preferred stock warrant liabilities	(401)				(401)
Loss before income taxes	(7,051)	(1,428)		(14,549)	(23,028)
Provision for income taxes		(49)			(49)
Net loss	(7,051)	(1,477)		(14,549)	(23,077)
Accretion of redeemable convertible preferred stock	(126)				(126)
Net loss attributable to common stockholders	$ (7,177)	$ (1,477)		$ (14,549)	$ (23,203)
Net loss per share attributable to common stockholders basic and diluted	$ (1.66)				$ (2.27)
Weighted average number of shares used to compute loss per share attributable to common stockholders	4,325			5,898	10,223
Pro forma net loss per common share basic and diluted	$ (0.20)				$ (0.42)
Weighted average number of shares used to compute pro forma net loss per share basic and diluted	35,886			18,941	54,827

Entropic Communications, Inc.

Unaudited Pro Forma Condensed Consolidated Combined Statement of Operations

Nine Months Ended September 30, 2007

(in thousands, except per share data)

	Entropic	RF Magic(1)	Notes	Pro Forma Adjustments	Pro Forma Combined
	(unaudited)			(unaudited)	
Net revenues	$ 82,377	$ 15,024		$	$ 97,401
Cost of net revenues	54,491	5,444	(a)(c)	500	60,435
Gross profit	27,886	9,580		(500)	36,966
Operating expenses:					
Research and development	22,812	6,831	(c)	605	30,248
Sales and marketing	6,642	2,487	(c)	193	9,322
General and administrative	5,104	2,115	(c)	504	7,723
Acquired in-process research and development	21,400		(d)	(21,400)	
Amortization of purchased intangible assets	1,338		(b)	367	1,705
Total operating expenses	57,296	11,433		(19,731)	48,998
Loss from operations	(29,410)	(1,853)		19,231	(12,032)
Interest income (expense), net	(64)	(389)	(e)	89	(364)
Loss on fair value of preferred stock warrant liabilities	(2,006)				(2,006)
Loss before income taxes	(31,480)	(2,242)		19,320	(14,402)
Provision for income taxes		(30)			(30)
Net loss	(31,480)	(2,272)		19,320	(14,432)
Accretion of redeemable convertible preferred stock	(95)				(95)
Net loss attributable to common stockholders	$ (31,575)	$ (2,272)		$ 19,320	$ (14,527)
Net loss per share attributable to common stockholders basic and diluted	$ (3.89)				$ (1.21)
Weighted average number of shares used to compute loss per share attributable to common stockholders	8,113			3,910	12,023
Pro forma net loss per common share basic and diluted	$ (0.71)				$ (0.26)
Weighted average number of shares used to compute pro forma net loss per share basic and diluted	44,363			12,558	56,921

(1) For the period from January 1, 2007 to June 30, 2007, the effective date of the acquisition of RF Magic.

Entropic Communications, Inc.

Notes to Unaudited Pro Forma Condensed Consolidated Combined Financial Statements

Pro Forma Financial Information of Business Combination

Basis of Pro Forma Presentation

On June 30, 2007, Entropic Communications, Inc. (the Company) acquired RF Magic, Inc. (RF Magic), a provider of digital broadcast satellite outdoor unit and silicon television tuner solutions, for approximately 5,898,000 shares of the Company s common stock and 42,388,000 shares of the Company s newly created Series D-1, D-2, and D-3 redeemable convertible preferred stock. The shares of Series D-1, D-2 and D-3 redeemable convertible preferred stock are convertible into an aggregate of 13,042,000 shares of the Company s common stock. The securities the Company issued or reserved for issuance pursuant to the acquisition were equal to approximately 34% of the combined company s fully diluted capitalization. The acquisition was designed to combine established complementary technologies focused on the rapidly growing market for connected home entertainment.

In connection with the RF Magic acquisition, the Company entered into an escrow agreement pursuant to which (i) 884,729 shares of the Company s common stock and (ii) shares of the Company s Series D redeemable convertible preferred stock that are convertible into an aggregate of 1,956,315 shares of its common stock, were deposited into an escrow account to potentially be used to satisfy certain indemnification claims. On November 14, 2007, the Company and the representative of the former RF Magic stockholders agreed that 90,059 of these escrowed shares (calculated on an as-converted to common stock basis) would be distributed to the Company to satisfy an indemnification claim made by the Company relating to the resolution of a disagreement with EchoStar, and that the remaining shares would thereafter be released to the former RF Magic stockholders.

The unaudited condensed combined pro forma statements of operations for the year ended December 31, 2006 and the nine months ended September 30, 2007 are based on the historical financial statements of the Company and RF Magic after giving effect to the Company s acquisition of RF Magic. No transactions between RF Magic and the Company have occurred for the periods presented. The unaudited condensed combined pro forma statements of operations are presented as if the acquisition occurred on January 1, 2006.

The unaudited condensed combined pro forma statements of operations do not give effect to any restructuring costs or any potential cost savings or other operating efficiencies that could result from the acquisition. They also do not give effect to any non-recurring charges or credits resulting from the transaction such as in-process research and development charges.

The effects of the acquisition have been presented using the purchase method of accounting under Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*. Under the purchase method of accounting, the total purchase price presented in the accompanying unaudited pro forma condensed consolidated combined financial statements was allocated to the assets acquired and liabilities assumed based on their respective fair values.

Entropic Communications, Inc.

Notes to Unaudited Pro Forma Condensed Consolidated Combined Financial Statements (cont.)

Purchase Price Allocation

The total purchase price of the acquisition was as follows (in thousands):

	Amount
Fair value of common stock and redeemable convertible preferred stock issued to stockholders	$ 140,988
Fair value of vested stock options assumed	6,084
Fair value of redeemable convertible preferred stock warrants assumed	1,233
Fair value of common stock warrants assumed	2,249
Acquisition-related transaction costs	528
Total purchase price	$ 151,082

The fair value of common stock and redeemable convertible preferred stock issued to the stockholders of RF Magic was determined based on the fair value of the Company s common stock and redeemable convertible preferred stock as of June 30, 2007. In order to calculate fair value, the Company utilized a probability-weighted expected return method consistent with the recommendations of the American Institute of Certified Public Accountants, or AICPA, Audit and Accounting Practice Aid Series, *Valuation of Privately-Held Company Equity Securities Issued as Compensation.* The Company utilized the following four scenarios in the probability- weighted calculation: liquidation, initial public offering, merger or acquisition, and status-quo. An enterprise value was calculated for the Company under each of the scenarios based on either the income, market or cost approach. From the enterprise value, a market value of equity was derived by reducing the enterprise value by excess balance sheet cash and deductions for debt and other obligations. The probability-weighted expected return method was then used to allocate the market value of equity to the various classes of stock.

The following table reflects the fair value of the Company s common and redeemable convertible preferred stock issued in the acquisition of RF Magic:

Class of Stock	Fair Value Per Share
Common stock	$ 7.22
Series D-1 redeemable convertible preferred stock	$ 2.23
Series D-2 redeemable convertible preferred stock	$ 2.25
Series D-3 redeemable convertible preferred stock	$ 2.40

The fair value of stock options and warrants assumed was determined using the Black-Scholes pricing model in accordance with SFAS 123R, *Share-Based Payment* (SFAS 123R). The assumptions used to calculate the fair value of the stock options assumed included a risk free interest rate of 4.89%-4.96%, volatility of 73%, and an expected term calculated under the simplified method of SAB 107 for each option assumed ranging from 2.5 6 years. The assumptions used to calculate the fair value of the warrants assumed included a risk free interest rate of 4.75%, volatility of 73%, and the remaining contractual term of the warrants on the date of acquisition, ranging from 4 7 years.

Under the purchase method of accounting, the total purchase price as shown in the table above is allocated to the tangible and identifiable intangible assets acquired and liabilities assumed based on their estimated fair values.

Entropic Communications, Inc.

Notes to Unaudited Pro Forma Condensed Consolidated Combined Financial Statements (cont.)

The excess of the purchase price over the net of the amounts assigned to tangible and identifiable intangible assets acquired and liabilities assumed is recognized as goodwill. The preliminary allocation of the purchase price is as follows (in thousands):

	Amount
Net tangible assets	$ 7,590
Identifiable intangible assets:	
Developed technology	24,800
Customer relationships	10,800
Backlog	1,400
Trade name	1,000
In-process research and development	21,400
Goodwill	84,092
Total purchase price	$ 151,082

The preliminary purchase price will be subject to further adjustments as the Company finalizes its review and analysis related to the opening balances included in inventory and accrued liabilities.

Pro Forma Adjustments

The preceding unaudited pro forma condensed consolidated combined financial statements have been prepared as if the acquisition was completed on January 1, 2006 for statement of operations purposes and reflect the following pro forma adjustments:

(a) Adjust cost of net revenues for amortization of developed technology and the inventory step-up from January 1, 2006 over their estimated useful lives (in thousands, except for years):

Purchased Assets:	**Purchase Price Allocation**	**Estimated Useful Life (in years)**	**Amortization for the Year Ended December 31, 2006**	**Amortization for the Nine Months Ended September 30, 2007**
Developed technology	$ 24,800	5.00	$ 4,960	$ 2,480
Inventory step-up	2,749	0.33	2,749	(2,062)
Total amortization to cost of net revenues			$ 7,709	$ 418

(b) Record amortization of purchased intangible assets from January 1, 2006 over their estimated useful lives (in thousands, except for years):

Purchased Intangible Assets:	**Purchase Price Allocation**	**Estimated Useful Life (in years)**	**Amortization for the Year Ended December 31, 2006**	**Amortization for the Nine Months Ended September 30, 2007**

Customer relationships	$ 10,800	6.00	$ 1,800	$ 900
Backlog	1,400	0.50	1,400	(700)
Trade name	1,000	3.00	333	167
Total amortization			$ 3,533	$ 367

Entropic Communications, Inc.

Notes to Unaudited Pro Forma Condensed Consolidated Combined Financial Statements (cont.)

(c) Record stock-based compensation expense related to the following: (1) reversal of SFAS 123R compensation expense included in the historical financial statements of RF Magic and (2) unvested stock options assumed in the acquisition based on a value as determined by the Black-Scholes pricing model in accordance with SFAS 123R (in thousands):

	Year Ended December 31, 2006	Nine Months Ended September 30, 2007
Cost of net revenues	$ 188	$ 82
Research and development	1,396	605
Sales and marketing	528	193
General and administrative	1,225	504
Total	$ 3,337	$ 1,384

(d) Reflect an adjustment to eliminate charges for acquired in-process research and development expensed on June 30, 2007, which is a non-recurring acquisition related charge.

(e) Adjust interest expense to reflect the fair value of RF Magic s debt that was assumed in the acquisition and related effective interest rate.

In-Process Research and Development

Acquired in-process research and development (IPR&D) at the date of acquisition relates to RF Magic s channel stacking switch products. The amount was expensed on the acquisition date because the acquired technology had not yet reached technological feasibility and had no alternative future uses. A discounted cash flow approach was utilized in valuing the IPR&D. The value of the technology was the sum of the present value of projected cash flow, in excess of returns on requisite assets, over the economic life of the IPR&D.

The IPR&D charge is made up of two projects that were 22% complete at the date of acquisition. The estimated cost to complete these projects was $10,704,000. The discount rate applied to calculate the IPR&D charge was 24%. If the projects are successfully developed, the Company does not expect to begin generating revenue from them until 2009. If the Company is unable to complete development of these projects within a reasonable period of time, the Company s ability to retain customers could be impaired; its competitive position may be harmed; the introduction of new products by its competition and the emergence of new technologies could render these products obsolete; and the Company may not be able to fully realize the anticipated benefits from the acquisition notwithstanding the substantial charge it recognized relating to these projects.

SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth selected consolidated financial data. The selected consolidated statement of operations data for the years ended December 31, 2002, 2003, 2004, 2005 and 2006 and selected consolidated balance sheet data as of December 31, 2002, 2003, 2004, 2005 and 2006 are derived from our audited consolidated financial statements. Our audited consolidated statements of operations for the years ended December 31, 2004, 2005 and 2006 and our audited consolidated balance sheets as of December 31, 2005 and 2006 are included elsewhere in this prospectus. Our audited consolidated statements of operations for the years ended December 31, 2002 and 2003 and our audited consolidated balance sheets as of December 31, 2002, 2003, and 2004 have not been included in this prospectus. The selected consolidated statements of operations data for the nine months ended September 30, 2006 and 2007 and the selected consolidated balance sheet data as of September 30, 2007 are derived from our unaudited consolidated financial statements which are included elsewhere in this prospectus. The selected consolidated balance sheet data as of September 30, 2007 gives effect to our acquisition of RF Magic which occurred on June 30, 2007. You should read this selected consolidated financial data in conjunction with the consolidated financial statements and related notes and the information under Management s Discussion and Analysis of Financial Condition and Results of Operations appearing elsewhere in this prospectus. The historical results set forth below are not necessarily indicative of results of operations to be expected in any future period.

The following selected unaudited pro forma condensed consolidated combined statement of operations data for the year ended December 31, 2006 and the nine months ended September 30, 2007 are based on the historical statements of operations of Entropic and RF Magic, giving effect to our acquisition of RF Magic as if the acquisition had occurred on January 1, 2006. The unaudited pro forma condensed consolidated combined financial data are based on the estimates and assumptions set forth in the notes to the unaudited pro forma condensed consolidated combined financial statements. These estimates and assumptions are preliminary and subject to change, and have been made solely for the purposes of developing such pro forma information. The selected unaudited pro forma condensed consolidated combined financial data are not necessarily indicative of the combined results of operations to be expected in any future period or the results that actually would have been realized had the entities been a single entity during these periods.

	Actual					Pro Forma	Actual		Pro Forma
	Years Ended December 31,						Nine Months Ended September 30,		
	2002	**2003**	**2004**	**2005**	**2006**	**2006**	**2006**	**2007**	**2007**
						(unaudited)	**(unaudited)**		**(unaudited)**
	(in thousands, except per share data)								
Consolidated Statement of Operations Data:									
Net revenues	$	$	$ 358	$ 3,719	$ 41,471	$ 67,654	$ 24,923	$ 82,377	$ 97,401
Cost of net revenues(1)			149	1,979	31,099	49,575	18,386	54,491	60,435
Gross profit			209	1,740	10,372	18,079	6,537	27,886	36,966
Operating expenses:									
Research and development(1)	9,989	9,908	8,984	9,574	11,601	24,179	8,153	22,812	30,248
Sales and marketing(1)	482	1,431	1,560	2,247	4,112	8,322	2,939	6,642	9,322
General and administrative(1)	1,834	2,146	1,482	1,846	2,192	5,344	1,515	5,104	7,723
Write-off of in-process research and development								21,400	
Amortization of purchased intangible assets						3,533		1,338	1,705
Total operating expenses	12,305	13,485	12,026	13,667	17,905	41,378	12,607	57,296	48,998
Loss from operations	(12,305)	(13,485)	(11,817)	(11,927)	(7,533)	(23,299)	(6,070)	(29,410)	(12,032)
Other (expense) income, net	(187)	110	157	(323)	482	271	492	(2,070)	(2,370)
Income tax provision						(49)			(30)
Net loss before cumulative effect of change in accounting principle	(12,492)	(13,375)	(11,660)	(12,250)	(7,051)	(23,077)	(5,578)	(31,480)	(14,432)
Cumulative effect of change in accounting principle				54					
Net loss	(12,492)	(13,375)	(11,660)	(12,196)	(7,051)	(23,077)	(5,578)	(31,480)	(14,432)
Accretion of redeemable convertible preferred stock		(73)	(85)	(89)	(126)	(126)	(95)	(95)	(95)
Net loss attributable to common stockholders	$ (12,492)	$ (13,448)	$ (11,745)	$ (12,285)	$ (7,177)	$ (23,203)	$ (5,673)	$ (31,575)	$ (14,527)
Net loss per share attributable to common stockholders basic and diluted	$ (11.74)	$ (6.74)	$ (4.25)	$ (3.70)	$ (1.66)	$ (2.27)	$ (1.33)	$ (3.89)	$ (1.21)

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