

ENTROPIC COMMUNICATIONS INC
Form DEF 14A
April 12, 2010
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Schedule 14A Information

Proxy Statement Pursuant to Section 14(a) of

the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x

Filed by a party other than the Registrant ..

Check the appropriate box:

.. Preliminary Proxy Statement

.. Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

.. Definitive Additional Materials

.. Soliciting Material under § 240.14a-12

ENTROPIC COMMUNICATIONS, INC.

(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

.. Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

Fee paid previously with preliminary materials.

Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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6290 Sequence Drive

San Diego, CA 92121

April 12, 2010

Dear Stockholder:

We hereby cordially invite you to attend our 2010 Annual Meeting of Stockholders, which will be held at Entropic Communications' corporate headquarters located at 6290 Sequence Drive, San Diego, California, at 2:00 p.m., Pacific Daylight Time, on Thursday, May 20, 2010. The formal meeting notice and proxy statement are attached.

At this year's Annual Meeting, our stockholders will be asked to:

elect the one nominee for director named in the proxy statement to hold office until our 2013 Annual Meeting of Stockholders; and

ratify the selection by the audit committee of our board of directors of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010.

Whether or not you plan to attend the 2010 Annual Meeting, it is important that your shares be represented and voted at the meeting. We urge you to vote promptly by mailing a completed proxy card in the enclosed return envelope (which is postage prepaid if mailed in the United States). Please remember to sign and date your proxy card. If your shares are held in the name of a broker, bank or other holder of record, you will receive a voting instruction form in lieu of a proxy card and, depending on the instructions provided by your broker, bank or other holder of record, may also be eligible to vote by telephone or electronically. Timely voting by any of these methods will ensure your representation at the 2010 Annual Meeting.

We look forward to seeing you on May 20, 2010.

Sincerely,

Lance W. Bridges

Vice President, General Counsel and Secretary

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HOW TO VOTE

Most stockholders have a choice of voting by mail using a traditional proxy card or in person. Some beneficial owners of shares may also have the choice of voting on the Internet or by telephone. Please refer to the proxy card or other voting instructions included with these proxy materials for information on the voting method(s) available to you.

REDUCE PRINTING AND MAILING COSTS

If you share the same last name with other stockholders living in your household, you may opt to receive only one copy of future proxy statements and annual reports. Please see the response to the question *What is householding and how does it affect me?* for more information on this important stockholder program.

If you wish to obtain additional copies of our proxy statement and our 2009 annual report, you may download these documents from our website at ir.entropic.com/financials.cfm.

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ENTROPIC COMMUNICATIONS, INC. 6290 Sequence Drive San Diego, CA 92121

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TIME AND DATE 2:00 p.m., Pacific Daylight Time, on Thursday, May 20, 2010.

PLACE Entropic Communications, Inc.
Corporate Headquarters
6290 Sequence Drive
San Diego, CA 92121

ITEMS OF BUSINESS To elect the nominee for director named in the accompanying proxy statement to hold office until our 2013 Annual Meeting of Stockholders.
To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the 2010 fiscal year.
To transact any other business that properly comes before the 2010 Annual Meeting of Stockholders and any adjournment or postponement.

RECORD DATE You can vote if you are a stockholder of record at the close of business on March 31, 2010.

ANNUAL REPORT Our 2009 annual report is enclosed with these materials as a separate booklet. You may also access our 2009 annual report through our website at ir.entropic.com/financials.cfm. Our 2009 annual report is not a part of the proxy solicitation materials.

PROXY VOTING It is important that your shares be represented and voted at the 2010 Annual Meeting of Stockholders. You can vote your shares by completing and returning your proxy card. See details under the question *How do I vote?* Under Proxy Statement Questions and Answers about the Annual Meeting and Voting below.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF STOCKHOLDERS TO BE HELD ON MAY 20, 2010: The notice of annual meeting, proxy statement and 2009 annual report are available on our website at ir.entropic.com/financials.cfm.

Lance W. Bridges

April 12, 2010

Vice President, General Counsel and Secretary

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Entropic Communications, Inc.

6290 Sequence Drive

San Diego, California 92121

PROXY STATEMENT

For the Annual Meeting of Stockholders

To Be Held May 20, 2010

QUESTIONS AND ANSWERS

ABOUT THE ANNUAL MEETING AND VOTING

Why did I receive these proxy materials?

We are providing these proxy materials in connection with the solicitation by the board of directors of Entropic Communications, Inc., a Delaware corporation, of proxies to be voted at our 2010 Annual Meeting of Stockholders, or Annual Meeting, and at any adjournment or postponement. In this proxy statement, Entropic, the Company, we, us and our refer to Entropic Communications, Inc., and our wholly-owned subsidiaries.

You are invited to attend our Annual Meeting, which will take place on Thursday, May 20, 2010, beginning at 2:00 p.m. Pacific Daylight Time. The Annual Meeting will be held at our corporate headquarters located at 6290 Sequence Drive, San Diego, California 92121.

This proxy statement and the accompanying proxy card, notice of annual meeting and voting instructions are being mailed starting April 12, 2010 to all stockholders of record entitled to vote at the Annual Meeting.

Who is entitled to vote at the Annual Meeting?

Holders of Entropic common stock at the close of business on March 31, 2010, are entitled to receive these proxy materials and to vote their shares at the Annual Meeting. As of that date, there were 71,696,150 shares of common stock outstanding and entitled to vote.

What is the difference between holding shares as a stockholder of record and as a beneficial owner?

If your shares are registered in your name with Entropic's transfer agent, American Stock Transfer & Trust Company, LLC, or the Transfer Agent, you are considered, for those shares, to be the stockholder of record. The notice of annual meeting, proxy statement, proxy card documents and 2009 annual report have been sent directly to you by Entropic.

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If your shares are held in a stock brokerage account or by a bank or other holder of record, you are considered the beneficial owner of shares held in street name. The notice of annual meeting, proxy statement, proxy card documents and 2009 annual report have been forwarded to you by your broker, bank or other holder of record who is considered, for those shares, to be the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or other holder of record on how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for voting by telephone or on the Internet.

How many votes do I have?

You are entitled to one vote on each matter properly brought before the Annual Meeting for each share of common stock that you own as of the close of business on March 31, 2010.

Notice of Annual Meeting of Stockholders and Proxy Statement April 12, 2010 1

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How do I vote?

You may vote using any of the following methods:

By mail

Complete, sign and date the enclosed proxy card or voting instruction card and return it in the return envelope provided (which is postage prepaid if mailed in the United States). *If you are a stockholder of record and you return your signed proxy card but do not indicate your voting preferences, the persons named in the proxy card will vote the shares represented by your proxy card as recommended by our board of directors.*

If you are a stockholder of record and the prepaid envelope is missing, please mail your completed proxy card to Entropic Communications, Inc., c/o American Stock Transfer & Trust Company, LLC, 59 Maiden Lane, New York, New York 10038.

If you are a beneficial owner of shares, you should have received a proxy card and voting instructions with these proxy materials from your broker, bank or other holder of record. Simply complete and mail the proxy card provided to the address provided by your broker, bank or other holder of record.

You may still attend the Annual Meeting in person even if you have already voted by proxy.

In person at the Annual Meeting

All stockholders may vote in person at the Annual Meeting and will be provided with a ballot at the meeting. You may also be represented by another person at the Annual Meeting by executing a proper proxy designating that person. If you are a beneficial owner of shares, you must obtain a proper proxy from your broker, bank or other holder of record and present it to the inspectors of election with your ballot to be able to vote at the Annual Meeting. Follow the instructions from your broker, bank or other holder of record included with these proxy materials, or contact your broker, bank or other holder of record to request a proxy form.

Your vote is important. You can save us the expense of a second mailing by voting promptly.

By telephone or on the Internet (available only to beneficial owners, if at all)

If you are a beneficial owner of shares, your broker, bank or other holder of record may make telephone or Internet voting available to you. The availability of telephone and Internet voting for beneficial owners will depend on the voting processes of your broker, bank or other holder of record. Therefore, we recommend that you follow the voting instructions in the materials you receive.

What can I do if I change my mind after I vote my shares?

If you are a stockholder of record, you can revoke your proxy at any time before the final vote at the Annual Meeting in any one of the following ways:

giving written notice to the corporate secretary of the Company at our corporate headquarters;

delivering a valid, later-dated proxy, in a timely manner; or

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voting by ballot in person at the Annual Meeting (simply attending the meeting will not, by itself, revoke your earlier proxy). If you are a beneficial owner of shares, you may submit new voting instructions by contacting your broker, bank or other holder of record. You may also vote in person at the Annual Meeting if you obtain a proper proxy as described in the answer to the previous question.

All shares for which proxies or ballots have been properly completed and submitted and have not been revoked will be voted at the Annual Meeting.

What does it mean if I received more than one proxy card?

If you received more than one proxy card, your shares are registered in more than one name or held in different accounts. Please complete, sign and return *each* proxy card to ensure that you vote all of your shares.

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What is householding and how does it affect me?

We have adopted a procedure approved by the Securities and Exchange Commission, or SEC, called householding. Under this procedure, stockholders of record who have the same address and last name and do not participate in electronic delivery of proxy materials will receive only one copy of our notice of annual meeting, proxy statement and 2009 annual report, unless one or more of these stockholders notifies us that they wish to continue receiving individual copies. This procedure will reduce our printing costs and postage fees.

Stockholders who wish to participate in householding will continue to receive separate proxy cards.

If you are eligible for householding, but you and other stockholders of record with whom you share an address currently receive multiple copies of the notice of annual meeting, proxy statement, 2009 annual report and accompanying documents, or if you hold stock in more than one account, and, in either case, you wish to receive only a single copy of each of these documents for your household, please contact our transfer agent, American Stock Transfer & Trust Company, LLC (in writing: 59 Maiden Lane, New York, New York 10038; by telephone: 1-800-937-5449).

If you participate in householding and wish to receive a separate copy of this notice of annual meeting, proxy statement, 2009 annual report and the accompanying documents, or if you do not wish to continue to participate in householding and prefer to receive separate copies of these documents in the future, please contact American Stock Transfer & Trust Company, LLC as indicated above.

Beneficial owners can request information about householding from their banks, brokers or other holders of record.

Is there a list of stockholders entitled to vote at the Annual Meeting?

The names of stockholders of record entitled to vote at the Annual Meeting will be available at

the Annual Meeting and for ten days prior to the meeting for any purpose germane to the meeting, between the hours of 9:00 a.m. and 4:30 p.m., at our corporate headquarters at 6290 Sequence Drive, San Diego, California, by contacting our corporate secretary.

What are the voting requirements to elect the nominee for director named in *Nominee for Class III Director* and to approve each of the proposals discussed in this proxy statement?

Proposal	Vote Required	Discretionary Voting Allowed?
Election of director	Plurality	No
Ratification of Ernst & Young LLP	Majority of the shares present at the meeting	Yes

The presence of the holders of at least a majority of the outstanding shares of Entropic common stock entitled to vote at the Annual Meeting (i.e., 35,848,076 shares), present in person or represented by proxy, is necessary to constitute a quorum. Your shares will be counted towards the quorum requirement only if a valid proxy is submitted by you or by your broker, bank or other holder of record on your behalf, or if you vote in person at the Annual Meeting. Abstentions and broker non-votes are counted as present and entitled to vote for purposes of determining a quorum. A broker non-vote occurs when a broker, bank or other holder of record holding shares for a beneficial owner does not vote on a particular proposal because that holder does not have discretionary voting power for that particular item and has not received voting instructions from the beneficial owner. If there is no quorum, a majority of the votes present at the Annual Meeting may adjourn the meeting to another date.

If you are a beneficial owner, your broker, bank or other holder of record is permitted to vote your shares on the ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm, even if the record holder does not receive voting instructions from you. However, due to rule changes adopted by the SEC, your broker, bank or other holder of record does not have discretionary authority to vote on the election of

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directors without instructions from you, in which case a broker non-vote will occur and your shares will not be voted on this matter. This represents a change from prior years when brokers, banks and other holders of record had discretionary voting authority in the election of directors. Accordingly, if you are a beneficial owner, it is particularly important that you provide your instructions for voting your shares on the election of directors to your broker, bank or other holder of record.

Election of director

Under our amended and restated bylaws, in the case of an uncontested election, such as the election of a director contemplated at the Annual Meeting, the single nominee for director will be elected to our board of directors as long as he receives at least one for vote. Only votes for or withheld will affect the outcome of the election of our director nominee. Abstentions are not counted as votes for, or withheld against, the nominee.

Ratification of Ernst & Young LLP

Under our amended and restated bylaws, the votes cast for must exceed the votes cast against to approve the ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010. Abstentions and, if applicable, broker non-votes, are not counted as votes for or against this proposal.

Could other matters be decided at the Annual Meeting?

At the date this proxy statement went to press, we were not aware of any matters to be raised at the Annual Meeting other than those referred to in this proxy statement.

If you have returned your signed and completed proxy card and other matters are properly presented at the Annual Meeting for consideration, the persons named in your proxy card will have the discretion to vote on those matters for you.

Can I access the notice of annual meeting, proxy statement and 2009 annual report on the Internet?

The notice of annual meeting, proxy statement and 2009 annual report are available on our website at ir.entropic.com/financials.cfm.

Who will pay for the cost of this proxy solicitation?

We will pay the cost of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees in person or by telephone, electronic transmission, facsimile transmission and other means of communication. Our directors, officers and employees will not receive any compensation for soliciting proxies. We may also reimburse brokerage firms, banks and other holders of record for the cost of forwarding proxy materials to beneficial owners.

Who will count the vote?

Representatives of our transfer agent, American Stock Transfer & Trust Company, LLC, will tabulate the votes and our corporate secretary will act as the inspector of election.

How can I find out the results of the voting at the Annual Meeting?

Preliminary voting results will be announced at the Annual Meeting. We intend to file a Current Report on Form 8-K with the SEC within four business days of the date of the Annual Meeting to announce the final voting results. If final voting results are not available to us in time to file a Current Report on Form 8-K within four business days after the Annual Meeting, we will file a Current Report on Form 8-K to publish preliminary results and, within four business days after final results are known, file an additional Current Report on Form 8-K to publish the final results.

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When are stockholder proposals due for Entropic s 2010 Annual Meeting of Stockholders?

To be considered for inclusion in next year s proxy materials, a stockholder proposal must be submitted in writing to our corporate secretary at our corporate headquarters by December 13, 2010. If you wish to submit a

stockholder proposal that is not to be included in next year s proxy materials, your proposal generally must be submitted to our corporate secretary no later than February 19, 2011. Please review our amended and restated bylaws, which contain additional requirements regarding advance notice of stockholder proposals, including the types of information required to be included in such proposals.

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GOVERNANCE OF THE COMPANY

GOVERNANCE INFORMATION

Entropic Policies on Business Ethics and Conduct

We are committed to maintaining the highest standards of business conduct and ethics and, accordingly, have adopted a Code of Business Conduct and Ethics that reflects the business practices and principles of behavior that support our commitment. All of our directors and employees, including our chief executive officer, chief financial officer and principal accounting officer, or the Principal Officers, are required to abide by the spirit, as well as the letter, of our Code of Business Conduct and Ethics to ensure that our business is conducted in a consistently legal and ethical manner. Our Code of Business Conduct and Ethics covers a wide range of professional conduct, including conflicts of interest, unfair or unethical use of corporate opportunities and the protection of confidential information, as well as adherence to all laws and regulations applicable to the conduct of our business.

Each of our directors and employees is required to report any suspected or actual violation of our Code of Business Conduct and Ethics of which he or she becomes aware. The Sarbanes-Oxley Act of 2002, as amended, requires audit committees to have procedures to receive, retain and treat complaints received regarding accounting, internal accounting controls or auditing matters and to allow for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters. We have such procedures in place.

The full text of our Code of Business Conduct and Ethics is published on our website at ir.entropic.com/governance.cfm. We will disclose any future amendment to, or waiver from, any provision of our Code of Business Conduct and Ethics for any Principal Officer or member of our board of directors, or our board, on our website within four business days following the date of such amendment or waiver.

Board Leadership Structure

Our board of directors is led by Mr. Umesh Padval, our independent chairman of the board. As set forth in our corporate bylaws, our chairman of the board presides at all meetings of the board and stockholders. He also performs other duties commonly assigned to the chairman of the board, or which may be prescribed from time to time by our board of directors. In our case, this means that our independent chairman is also responsible for:

setting the agenda for board meetings, in consultation with our president and chief executive officer and other members of the board;

calling and presiding over meetings of the independent directors; and

managing the board's process for annual director self-assessment evaluations.

The board does not have a policy that would prevent our president and chief executive officer from serving as chairman of the board if that were deemed by the board to be in the best interests of the Company. In fact, Patrick Henry, our president and chief executive officer, served as chairman of our board from July 2007 until January 2009. However, the board believes that there may be advantages to having a chairman who is independent of management for matters such as communications and relations between the board, the president and chief executive officer and other senior management; assisting the board in reaching consensus on particular strategies and policies; and facilitating robust director, board and chief executive officer evaluation processes. In order to help realize these advantages, in January 2009, our board appointed one of our independent directors, Mr. Padval, to serve as chairman of the board while Mr. Henry continued to lead the Company as its president and chief executive officer.

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Our Board's Role in Risk Oversight

Our business involves many unavoidable operational and financial risks, such as those that we disclose periodically in our filings with the SEC. Our management is responsible for identifying risks related to significant business activities, and developing programs for monitoring and controlling or mitigating such risks. The board implements its risk oversight responsibilities by having management provide briefings or engage in discussion and analysis with the board regarding business risks and our risk management efforts. In some cases, such as strategic risks associated with entering new markets or product development, risks and risk controls are discussed with the board as part of the regular process of approving management's goals and operating plans. In other cases, certain committees of the board are responsible for oversight of specific risk topics. For example, the audit committee oversees issues related to disclosure controls and internal control over financial reporting, and the compensation committee oversees risks related to compensation programs, as discussed in greater detail below. A discussion of relevant risks and risk controls is frequently included in management's presentations to the board and its committees; and board members assess and oversee risks as a part of their review of business, financial or other activities of the Company. From time to time, the board also receives specific reports on enterprise risk management, in which the identification and control of risks are the primary topics of discussion.

Risk Assessment in Compensation Programs. Consistent with new SEC disclosure requirements, our management assessed our executive and broad-based compensation and benefits programs on a company-wide basis to determine if the programs' provisions and operations create undesired or unintentional risks of a material nature. Based on such assessment, we have concluded that our compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the Company.

Executive Sessions of the Board of Directors

As required under the applicable listing standards of The NASDAQ Stock Market, or NASDAQ, executive sessions, or meetings attended only by outside or non-employee members of our board, are held regularly to review the report of the independent registered public accounting firm, the leadership and performance of the president and chief executive officer and other senior management, management's business strategy and operational and financial goals, and any other relevant matters. In 2009, non-employee members of the board met six times in executive sessions of regularly scheduled and special board meetings. Mr. Padval presided at each of these executive sessions in his capacity as our independent chairman.

Director Independence

As a company that is listed on The NASDAQ Global Market, we are required, under NASDAQ's listing standards, to maintain a board comprising a majority of independent members, as determined affirmatively by our board. With the assistance of legal counsel to the Company, our board reviewed the applicable legal standards for board member and board committee independence as in effect from time to time, including the NASDAQ listing standards. Our board also reviewed a summary of the answers to annual questionnaires completed by each of the non-officer directors and a report of transactions with director-affiliated persons and entities.

On the basis of this review, our board affirmatively determined that except for Mr. Henry, all individuals who served as our directors in 2009 and who will continue to serve as our directors in 2010, including the director standing for re-election at the Annual Meeting, are independent of the Company and its management under the standards described above. Mr. Henry is not considered an independent director because of his employment as president and chief executive officer of the Company.

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Stockholder Communications with the Board of Directors

Our board has adopted a formal process by which stockholders and other interested parties may communicate with our board or any of its directors on board-related issues. Stockholders and other interested parties who wish to communicate with our board or any its members may do so by sending written communications addressed to 6290 Sequence Drive, San Diego, California 92121, Attn: Secretary. Each written communication must set forth (i) the name and address of the stockholder on whose behalf the communication is being sent, and (ii) the number of shares of Entropic common stock beneficially owned by such stockholder as of the date of such communication.

Relevant communications are distributed to the board, or to any individual director or directors as appropriate, depending on the facts and circumstances outlined in the communication. In that regard, our board has requested that

certain items that are unrelated to the duties and responsibilities of the board be excluded, including, for example:

product complaints;

product inquiries;

new product suggestions;

resumes and other forms of job inquiries;

surveys; and

business solicitations or advertisements.

In addition, material that is unduly hostile, threatening, illegal or similarly unsuitable will be excluded, with the provision that any communication that is filtered out must be made available to any non-employee director upon request. Our corporate secretary will determine whether these communications should be presented to the board or any one or more directors.

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Members of our board are kept informed of our business through discussions with our president and chief executive officer and other officers, by reviewing materials provided to them, by visiting our offices and by participating in meetings of the board and its committees.

We encourage, but do not require, our directors and nominees for directors to attend our annual meeting of stockholders. At our 2009 Annual Meeting of Stockholders, three of our directors attended in person.

During 2009, our board met six times in regularly scheduled and special meetings and had three committees. Those committees consisted of an audit committee, a nominating and corporate governance committee and a compensation committee. Each of our directors attended more than 80 percent of the regularly scheduled and special meetings of the board and board committees on which they served in 2009, held during the period for which they were directors or committee members, respectively.

The table below provides 2009 membership and meeting information for each of the board committees. Mr. Henry was not a member of any board committee in 2009. Information relating to Dr. Rouzbeh Yassini's attendance at board and committee meetings has been excluded as Dr. Yassini resigned from the board in January 2009.

Name	Audit	Nominating and Corporate Governance	Compensation
Mr. Thomas Baruch+	X	X*	X
Mr. Keith Bechard+	X		
Mr. Amir Mashkooi	X	X	
Dr. Kenneth Merchant	X*		
Mr. Umesh Padval		X	X*
Mr. John Walecka++			X
Total 2009 Meetings	5	2	6

* Committee Chair

+ Mr. Bechard replaced Mr. Baruch as a member of the audit committee in September 2009.

++ Mr. Walecka has informed us that he will not stand for re-election to our board and, in connection therewith, has tendered his resignation from the board and compensation committee effective as of May 19, 2010.

The Audit Committee

The three-person audit committee is composed entirely of independent directors and is governed by a board-approved charter stating its responsibilities. The audit committee met five times in 2009. Under the terms of its charter, the audit committee oversees the Company's corporate accounting and financial reporting processes on behalf of the board and confers with management and the Company's independent registered public accounting firm regarding the scope, adequacy and effectiveness of internal controls over financial reporting. The committee reviews and

discusses with management and the Company's independent registered public accounting firm on matters relating to the annual audit, the financial statements and management's discussion and analysis proposed to be included in the Company's SEC filings, earnings and certain press releases containing information relating to material developments and the presentation of financial statements and the accounting principles applied. The audit committee is directly responsible for the appointment, compensation, retention and oversight of the work of the Company's independent auditors and is responsible for evaluating the independent

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auditors' qualifications, performance and independence, as well as approving any non-audit services to be performed by the independent auditors. Both our independent registered public accounting firm and management periodically meet privately with our audit committee.

The audit committee reviews reports from management relating to the status of compliance with certain laws, regulations and internal policies and procedures, including our Related-Person Transactions Policy and Code of Business Conduct and Ethics. The committee is also responsible for reviewing and discussing with management and the independent auditors, as appropriate, the Company's guidelines and policies with respect to risk assessment and risk management related to financial controls, disclosure controls and management of the Company's assets.

The audit committee has established policies and procedures for the pre-approval of all services provided by the independent registered public accounting firm. The audit committee has also established procedures for the receipt, retention and treatment of complaints received by the Company regarding accounting, internal accounting controls or auditing matters and the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

Our board has determined that each of the members of the audit committee is independent within the meaning of the applicable NASDAQ listing standards and is free of any relationship that would impair his individual exercise of independent judgment with regard to the Company.

A copy of the audit committee charter is available on our website at ir.entropic.com/governance.cfm.

Audit Committee Financial Expert

Our board has also determined that Dr. Merchant qualifies as an audit committee financial expert for the purposes of the SEC's rules. In making this determination, our board has considered Dr. Merchant's formal

education, his current position with the University of Southern California, his accounting and auditing firm experience, and the nature and scope of his previous experience with public companies.

The Nominating and Corporate Governance Committee

The three-person nominating and corporate governance committee is composed entirely of independent directors and is governed by a board-approved charter stating its responsibilities. The nominating and corporate governance committee met two times in 2009. Under the terms of its charter, the nominating and corporate governance committee is responsible for overseeing all aspects of the Company's corporate governance functions on behalf of the board. This includes determining the minimum qualifications for service on the board, monitoring the size of the board, and identifying, reviewing, evaluating, nominating and recommending candidates to serve on the board, including reviewing, evaluating and considering the recommendation for nomination of incumbent directors for re-election to the board and considering director candidates nominated by stockholders.

The committee is responsible for overseeing and reviewing the processes and procedures used by the Company to provide information to the board and board committees. The committee periodically reviews, discusses and assesses the performance of the board and board committees, including the independence of directors. The committee also periodically reviews with the chief executive officer the Company's succession plans for the chief executive officer and other key executive officer positions and is responsible for recommending to the board suitable candidates to succeed to these positions.

At this time, our nominating and corporate governance committee has not adopted any specific policies or any specific process for identifying, reviewing, evaluating, nominating or recommending candidates to serve on the board. However, the committee requires candidates for director nominees to be able to fulfill the core responsibilities required of

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directors, including devoting sufficient time to our affairs and participating in board and committee meetings. Candidates are also expected to have personal integrity and demonstrate a commitment to the Company, its values and its business and to long-term stockholder value. In addition, the committee will consider such factors as the professional background and experience of each candidate, his or her independence under applicable NASDAQ and SEC rules, and whether a candidate's service on the boards of other companies is likely to interfere with his or her service on our board. The board will also consider such factors as the need for, and benefits of, diversity as to gender, ethnic backgrounds and experiences in the composition of the board. The committee retains the right to modify its requirements from time to time. The committee will consider director candidates recommended by our stockholders. The committee does not intend to alter the manner in which it evaluates director candidates, including the preceding criteria, based on whether or not the director candidate was recommended by a stockholder.

Our board has also determined that each of the members of the nominating and corporate governance committee is independent within the meaning of the applicable NASDAQ listing standards and is free of any relationship that would impair his individual exercise of independent judgment with regard to the Company.

A copy of the nominating and corporate governance committee charter is available on our website at ir.entropic.com/governance.cfm.

The Compensation Committee

The three-person compensation committee is composed entirely of independent directors and is governed by a board-approved charter stating its responsibilities. The compensation committee met six times in 2009. Under the terms of its charter, the role of the compensation committee is to:

review, modify and approve the Company's overall compensation strategies and policies;

review and approve corporate performance goals and objectives;

determine and approve the compensation and other terms of employment of our chief executive officer and our other executive officers, including the executive officers named in the Company's annual proxy statement, taking into consideration each officer's success in achieving his or her performance goals and objectives, as such goals and objectives have been approved by the committee;

review the competitiveness of our executive compensation programs and evaluate the effectiveness of our compensation policy and strategy in achieving expected benefits to us;

review and approve compensation that is paid to non-employee directors;

review and approve the adoption, amendment and termination of the Company's stock, bonus and deferred compensation plans, if any;

administer our equity plans, including granting options and awards under these plans;

review and discuss with the Company's management the content, and recommend to the board the inclusion, of the *Compensation Discussion and Analysis* discussion in the Company's annual proxy statement and other SEC filings; and

prepare and review the report of the compensation committee for inclusion in the proxy statement.

In making its compensation decisions, the compensation committee generally follows a set of processes and procedures that it has established and is described in detail in *Compensation Discussion and Analysis*.