

ENTROPIC COMMUNICATIONS INC
Form DEF 14A
April 05, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

*Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934*

Filed by the Registrant

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))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to § 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):

- No fee required.

Table of Contents

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form DEF 14A

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

Table of Contents

6290 Sequence Drive

San Diego, CA 92121

April 5, 2012

Dear Shareholder:

We hereby cordially invite you to attend our 2012 Annual Meeting of Shareholders, or Annual Meeting, 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 Tuesday, May 15, 2012. We hope you will plan to attend. You will find details regarding our Annual Meeting and the business to be conducted in the Notice of Internet Availability of Proxy Materials, or Notice, that you received in the mail and in this proxy statement. We have also made available a copy of our 2011 annual report to shareholders with this proxy statement. We encourage you to read our 2011 annual report. It includes our audited financial statements and provides information about our business.

We have elected to provide our proxy materials over the Internet under the Securities and Exchange Commission's notice and access rules. Providing our proxy materials to shareholders electronically allows us to conserve natural resources and reduce our printing and mailing costs related to the distribution of the proxy materials. If you wish to receive paper copies of the proxy materials you may do so by following the instructions contained in the Notice.

Your vote is important. Whether or not you plan to attend the Annual Meeting we hope you will vote as soon as possible. You may vote over the Internet, as well as by telephone, or, if you received printed proxy materials, by mailing a proxy or voting instruction card. Please review the instructions on each of your voting options described in this proxy statement, as well as in the Notice that you received in the mail.

Thank you for your ongoing support of Entropic Communications. We look forward to seeing you at our Annual Meeting.

Sincerely,

Lance W. Bridges

Senior Vice President, General Counsel and Corporate Secretary

Table of Contents

ENTROPIC COMMUNICATIONS, INC.

6290 Sequence Drive

San Diego, CA 92121

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

TIME AND DATE

2:00 p.m., Pacific Daylight Time, on Tuesday, May 15, 2012.

PLACE

Entropic Communications, Inc.'s corporate headquarters, located at 6290 Sequence Drive, San Diego, CA 92121

ITEMS OF BUSINESS

To elect the two nominees for director named in the accompanying proxy statement to hold office until our 2015 Annual Meeting of Shareholders.

To cast a vote on advisory approval of Entropic's executive compensation, as disclosed in the accompanying proxy statement.

To ratify the selection of Ernst & Young LLP as our independent registered public accounting firm for the 2012 fiscal year.

To transact any other business that properly comes before the 2012 Annual Meeting of Shareholders, or Annual Meeting.

ADJOURNMENTS AND POSTPONEMENTS

Any action on the items of business described above may be considered at the Annual Meeting or at any time and date to which the Annual Meeting may be properly adjourned or postponed.

RECORD DATE

You can vote if you are a shareholder of record at the close of business on March 26, 2012.

VOTING

Your vote is important. Whether or not you plan to attend the Annual Meeting, we encourage you to read this proxy statement and submit your proxy or voting instruction as soon as possible.

For specific instructions on how to vote your shares, please refer to the instructions on the Notice of Internet Availability of Proxy Materials, or Notice, that you received in the mail, the section titled Questions and Answers About Proxy Materials and the Annual Meeting beginning on Page 1 of this proxy statement or, if you requested to receive printed proxy materials, your enclosed proxy card.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE 2012 ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON MAY 15, 2012: This proxy

statement, the accompanying proxy card and entropic communications annual

report to shareholders are available at www.proxyvote.com.

By Order of the Board of Directors

Lance W. Bridges

Senior Vice President, General Counsel and Corporate Secretary

San Diego, California

April 5, 2012

Table of Contents**TABLE OF CONTENTS**

<u>PROXY STATEMENT</u>	1
<u>Questions and Answers about Proxy Materials and the Annual Meeting</u>	1
<u>GOVERNANCE OF THE COMPANY</u>	6
<u>Governance Information</u>	6
<u>Entropic Policies on Business Ethics and Conduct</u>	6
<u>Board Leadership Structure</u>	6
<u>Our Board's Role in Risk Oversight</u>	7
<u>Executive Sessions of the Board of Directors</u>	7
<u>Director Independence</u>	7
<u>Shareholder Communications with the Board of Directors</u>	8
<u>Board and Committee Membership</u>	10
<u>The Audit Committee</u>	10
<u>Audit Committee Financial Expert</u>	11
<u>The Nominating and Corporate Governance Committee</u>	11
<u>The Compensation Committee</u>	12
<u>Compensation Committee Interlocks and Insider Participation</u>	13
<u>2011 Compensation of Non-Employee Directors</u>	14
<u>2011 Non-Employee Director Compensation</u>	14
<u>2011 Director Compensation Table</u>	15
<u>SECURITIES OWNERSHIP</u>	16
<u>SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE, RELATED PERSON TRANSACTIONS AND INDEMNIFICATION</u>	18
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	18
<u>Review of Related Person Transactions</u>	18
<u>Transactions with Related Persons</u>	18
<u>Indemnification</u>	18
<u>PROPOSALS REQUIRING YOUR VOTE</u>	19
<u>Item 1 Election of Directors</u>	19
<u>Classified Board</u>	19
<u>Nominee for Class II Director</u>	20
<u>Class I Director</u>	22
<u>Class III Director</u>	23
<u>Item 2 Advisory vote on the Approval of the Compensation of our Named Executive Officers (Say-on-Pay Vote)</u>	26
<u>Text of the Shareholder Resolution</u>	26
<u>Item 3 Ratification of Independent Registered Public Accounting Firm</u>	28
<u>Audit and Non-Audit Fees</u>	29
<u>Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm</u>	29
<u>Report of the Audit Committee</u>	30
<u>EXECUTIVE COMPENSATION</u>	32
<u>Compensation Committee Report</u>	32
<u>Compensation Discussion and Analysis</u>	32
<u>Philosophy and Goals of Our Executive Compensation Program</u>	33
<u>Executive Summary</u>	33
<u>Overview of Our Compensation Program</u>	33
<u>Changes Made in 2011 to Our Executive Compensation Programs</u>	34
<u>How We Make Compensation Decisions</u>	35
<u>Processes and Procedures</u>	35
<u>Role of the Compensation Consultant</u>	36
<u>Benchmarking of Executive Compensation</u>	36

<u>Elements of Total Compensation</u>	37
<u>Executive Compensation Tables</u>	43
<u>2011 Summary Compensation Table</u>	43
<u>2011 Grants of Plan-Based Awards Table</u>	45
<u>2011 Outstanding Equity Awards at Year-End Table</u>	46
<u>2011 Pension Benefits</u>	47
<u>2011 Option Exercises and Stock Vested Table</u>	47
<u>2011 Nonqualified Deferred Compensation Plan</u>	48
<u>2011 Compensation Arrangements Of Named Executive Officers</u>	48
<u>Employment and Severance Arrangements</u>	48
<u>Potential Payments under Severance Arrangements</u>	49
<u>Estimated Benefits upon Termination without Cause or Resignation for Good Reason</u>	50
<u>Relocation Benefits</u>	50
<u>Retention Agreement</u>	51
<u>Equity Compensation Plan Information</u>	52
<u>REQUIREMENTS, INCLUDING DEADLINES, FOR SUBMISSION OF PROXY PROPOSALS, NOMINATION OF DIRECTORS AND OTHER BUSINESS OF SHAREHOLDERS</u>	53
<u>INFORMATION CONCERNING ENTROPIC S ANNUAL MEETING OF SHAREHOLDERS</u>	55

Table of Contents

Entropic Communications, Inc.

6290 Sequence Drive

San Diego, California 92121

PROXY STATEMENT

For the Annual Meeting of Shareholders

To Be Held May 15, 2012

QUESTIONS AND ANSWERS

ABOUT PROXY MATERIALS AND THE ANNUAL MEETING

Why did I receive these proxy materials?

We have made these proxy materials available to you over the Internet, or have delivered paper copies of these materials to you by mail, in connection with the solicitation by the board of directors of Entropic Communications, Inc., a Delaware corporation, of proxies to be voted at our 2012 Annual Meeting of Shareholders, or Annual Meeting, which is scheduled to take place on Tuesday, May 15, 2012, beginning at 2:00 p.m., Pacific Daylight Time, at our corporate headquarters located at 6290 Sequence Drive, San Diego, California 92121. These materials include information that we are required to provide to you under the rules of the U.S. Securities and Exchange Commission, or SEC, and are designed to assist you in voting on the matters presented at the Annual Meeting. Shareholders of record as of the close of business on March 26, 2012 may attend the Annual Meeting and are entitled and requested to vote on the proposals described in this proxy statement.

In our proxy materials, Entropic, the Company, we, us and our refer to Entropic Communications, Inc. and its subsidiaries.

What is included in the proxy materials?

The proxy materials include our proxy statement for the Annual Meeting, our 2011 annual report which includes our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and, if you received a paper copy of these materials, a proxy card or voting instruction

card. If you received a Notice of Internet Availability of Proxy Materials, or Notice, please see [Why did I receive a Notice of Internet Availability of Proxy Materials instead of a paper copy of the proxy materials?](#) below.

Why did I receive a Notice of Internet Availability of Proxy Materials instead of a paper copy of the proxy materials?

In accordance with rules adopted by the SEC, we may furnish proxy materials, including this proxy statement and our 2011 annual report to shareholders, to our shareholders by providing access to such documents on the Internet instead of mailing printed copies. Most shareholders will not receive printed copies of the printed proxy materials unless they request them. Instead, the Notice, which was mailed to most of our shareholders commencing on our about April 5, 2012, will instruct you as to how you may access and review all of the proxy materials on the Internet. The Notice also instructs you as to how you may submit your proxy on the Internet. If you would like to receive a paper copy of our

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form DEF 14A

proxy materials, you should follow the instructions for requesting such materials in the Notice.

Who is eligible to vote at the Annual Meeting?

If your Entropic common stock is registered in your name in the records of our transfer agent, American Stock Transfer & Trust Company, LLC, or the Transfer Agent, as of the close of business on March 26, 2012, you are a shareholder of record for purposes of the Annual Meeting and are eligible to attend and

Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2012 1

Table of Contents

vote. If you hold shares of our common stock indirectly through a broker, bank or similar institution, you are not a shareholder of record, but instead hold your shares in street name and the record owner of your shares is your broker, bank or similar institution. Instructions on how to vote shares held in street name are described under "How do I vote my shares?" below.

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

The names of shareholders 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 Annual 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.

How many votes do I have?

You will have one vote for each share of our common stock owned by you, as a shareholder of record or in street name, at the close of business on March 26, 2012.

Is my vote confidential?

Proxy instructions, ballots and voting tabulations that identify individual shareholders are handled in a manner that protects your voting privacy. Your vote will not be disclosed either within Entropic or to third parties, except: (1) as necessary to meet applicable legal requirements, (2) to allow for the tabulation of votes and certification of the vote, and (3) to facilitate a successful proxy solicitation. Occasionally, shareholders provide written comments on their proxy card, which are then forwarded to Entropic's management.

What am I being asked to vote on at the Annual Meeting?

You are being asked to vote on:

Item 1: the election of the two nominees for director named in this proxy statement, each to serve for a three-year term as a Class II director;

Item 2: advisory approval of Entropic's executive compensation, as disclosed in this proxy statement; and

Item 3: the ratification of the selection of Ernst & Young LLP as Entropic's registered public accounting firm for the fiscal year ending December 31, 2012.

How does the Board recommend that I vote?

The Board recommends that you vote:

FOR the election of the two nominees for director named in this proxy statement, each to serve for a three-year term as a Class II director;

FOR the advisory approval of Entropic's executive compensation, as disclosed in this proxy statement; and

FOR the ratification of the selection of Ernst & Young LLP as Entropic's registered public accounting firm for the fiscal year ending December 31, 2012.

How do I vote my shares?

For shareholders of record: If you are eligible to vote at the Annual Meeting and are a shareholder of record, you may submit your proxy or cast your vote in one of four ways:

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form DEF 14A

By Internet If you have Internet access, you may submit your proxy by following the instructions provided in the Notice, or if you requested printed proxy materials, by following the instructions provided with your proxy materials and on your proxy card.

By Telephone You can also submit your proxy by telephone by following the instructions provided in the Notice, or if you requested printed proxy materials, by following the instructions provided with your proxy materials and on your proxy card.

By Mail If you received your proxy materials by mail, you may submit your proxy by completing the proxy card enclosed with those materials, signing and dating it and returning it in the pre-paid envelope we have provided.

In Person at our Annual Meeting You can vote in person at our Annual Meeting. You must present an acceptable form of identification, such as a driver's license, in order to gain admittance.

2 Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2011

Table of Contents

For holders in street name: If you hold your shares in street name and, therefore, are not a shareholder of record, you will need to follow the specific voting instructions provided to you by your broker, bank or other similar institution. If you wish to vote your shares in person at our Annual Meeting, you must obtain a valid proxy from your broker, bank or similar institution, granting you authorization to vote your shares. In order to attend and vote your shares held in street name at our Annual Meeting, you will need to hand in the valid proxy from your broker, bank or similar institution, along with a signed ballot that you can request at the Annual Meeting. You will not be able to vote your shares held in street name at the Annual Meeting without a valid proxy from your broker, bank or similar institution and a signed ballot.

Can I change or revoke my proxy?

For shareholders of record: Yes. A proxy may be changed or revoked at any time prior to the voting at the Annual Meeting by submitting a later-dated proxy (including a proxy via the Internet or by telephone) or by giving written notice to our Corporate Secretary. You may also attend the Annual Meeting and vote your shares in person.

For holders in street name: Yes. You must follow the specific voting instructions provided to you by your broker, bank or other similar institution to change or revoke any instructions you have already provided to them.

If I submit a proxy by Internet, telephone or mail, how will my shares be counted?

If you submit your proxy by one of these methods, and you do not subsequently revoke your proxy, your shares of common stock will be voted in accordance with your instructions.

If you sign, date and return your proxy card but do not provide specific voting instructions, your shares of common stock will be voted FOR the election of the two nominees for director named in this proxy statement, FOR the advisory approval of Entropic's executive compensation, as disclosed in this proxy statement, and FOR the ratification of the selection of Ernst & Young LLP as our independent registered public

accounting firm for our fiscal year ending December 31, 2012. If any other matter properly comes before our Annual Meeting, the proxy holders will vote your shares in their discretion.

What is broker discretionary voting ?

If you hold your shares in street name, your broker, bank or other similar institution may be able to vote your shares without your instructions depending on whether the matter being voted on is discretionary or nondiscretionary. In the case of a discretionary matter (for example, the ratification of the independent registered public accounting firm), your broker is permitted to vote your shares of common stock if you have not given voting instructions. In the case of a non-discretionary matter (for example, the election of directors and the advisory vote on a resolution to approve Entropic's executive compensation), your broker cannot vote your shares if you have not given voting instructions. A broker non-vote occurs when your broker submits a proxy for the Annual Meeting with respect to discretionary matters, but does not vote on non-discretionary matters because you did not provide voting instructions on these matters. Therefore, it is important that you provide specific voting instructions regarding non-discretionary matters (such as election of directors and matters related to executive compensation) to your broker, bank or similar institution.

I understand that a quorum is required in order to conduct business at the Annual Meeting. What constitutes a quorum?

A majority of all of our outstanding shares of common stock entitled to vote at the Annual Meeting, represented in person or by proxy, constitutes a quorum at the Annual Meeting. As of March 26, 2012, the record date for the Annual Meeting, there were 87,499,725 shares of common stock outstanding and entitled to vote. If you submit a properly executed proxy by mail, telephone or the Internet, you will be considered a part of the quorum. In addition, abstentions and broker non-votes will be counted for purposes of establishing a quorum. If a quorum is not present, the Annual Meeting will be adjourned until a quorum is obtained.

Table of Contents

What are the voting requirements to elect the two nominees for director named in *Nominees for Class II Director* and to approve each of the proposals discussed in this proxy statement?

Proposal	Vote Required	Discretionary
		Voting Allowed?
Election of directors	Plurality	No
Advisory approval of executive compensation	Majority of the shares present at the meeting in person or by proxy	No
Ratification of Ernst & Young LLP	Majority of the shares present at the meeting in person or by proxy	Yes

Election of directors

Under our amended and restated bylaws, in the case of an uncontested election, such as the election of two directors contemplated at the Annual Meeting, the two nominees receiving the most for votes will be elected to our board of directors. Only votes for or withheld will affect the outcome of the election of our director nominees. Abstentions are not counted as votes for, or withheld against, any nominee.

Advisory Approval of Executive Compensation

Under our amended and restated bylaws, to approve, on an advisory (non-binding) basis, the compensation of our named executive officers as disclosed in this proxy statement, the proposal must receive for votes from the holders of a majority of shares present in person or represented by proxy and entitled to vote. Abstentions will be counted toward the tabulation of votes cast on this proposal and will have the same effect as an against vote. Broker non-votes will have no effect.

Ratification of Ernst & Young LLP

Under our amended and restated bylaws, 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, 2012 the proposal must receive for votes from the holders of a

majority of shares present in person or represented by proxy and entitled to vote. Abstentions will be counted toward the tabulation of votes cast on this proposal and will have the same effect as an against vote. Broker non-votes will have no effect.

Could other matters be decided at the Annual Meeting?

Other than the three items of business described in this proxy statement, we were not aware of any other business to be acted upon at the Annual Meeting. If you grant a proxy, the persons named as proxy holders will have discretion to vote your shares on any additional matters that are properly presented at the Annual Meeting for consideration

I share an address with another shareholder and we received only one Notice or one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials?

We have adopted a procedure called householding, which the SEC has approved. Under this procedure, we deliver a single copy of the Notice and, if applicable, the proxy materials and the Annual Report to multiple shareholders who share the same address unless we received contrary instructions from one or more of the shareholders. This procedure reduces our printing costs, mailing costs, and fees. Shareholders who participate in householding will continue to be able to access and receive separate proxy cards. Upon written request, we will deliver promptly a separate copy of the Notice and, if applicable, the proxy materials to any shareholder at a shared address to which we delivered a single copy of any of these documents. To receive a separate copy of the Notice and, if applicable, the proxy materials, shareholders may write or email us at the following address and email address:

Investor Relations

Entropic Communications, Inc.

6290 Sequence Drive

San Diego, CA 92121

Email: *ir@entropic.com*

Shareholders who hold shares in street name may contact their brokerage firm, bank, broker-dealer, or other similar organization to request information about householding.

Table of Contents

How can I obtain a proxy card or voting instruction form?

If you lose, misplace or otherwise need to obtain a proxy card or a voting instruction form, please follow the applicable procedure below.

For shareholders of record: Please write or email us at the address and email address set forth above in I share an address with another shareholder and we received only one Notice or one paper copy of the proxy materials. How may I obtain an additional copy of the proxy materials? .

For holders in street name: Please contact your account representative at your broker, bank or other similar institution.

How can I obtain directions to the Annual Meeting?

Directions to the Annual Meeting are set forth at the end of this proxy statement. You may also obtain directions to the Annual Meeting by contacting Entropic Communications Investor Relations by email to ir@entropic.com.

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 our 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 mailing and tabulating agent, Broadridge Financial Solutions, 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.

When are shareholder proposals due for Entropic's 2013 Annual Meeting of Shareholders?

To be considered for inclusion in next year's proxy materials, a shareholder proposal must be submitted in writing to our corporate secretary at our corporate headquarters by December 6, 2012. If you wish to submit a shareholder proposal that is not to be included in next year's proxy materials, your proposal generally must be submitted to our corporate secretary no earlier than January 15, 2013 and no later than February 14, 2013. Please review our amended and restated bylaws, which contain additional requirements regarding advance notice of shareholder proposals, including the types of information required to be included in such proposals.

How can I obtain more information about Entropic Communications?

Copies of this proxy statement and our 2011 Annual Report on Form 10-K are available online at www.proxyvote.com or at <http://proxy.entropic.com>.

Table of Contents

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 <http://governance.entropic.com>. 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 amended and restated bylaws, when present our chairman of the board presides at all meetings of the board and shareholders. 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. 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.

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form DEF 14A

6 Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2011

Table of Contents

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. As required by the SEC's rules, 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 2011, non-employee members of the board met four 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 Select 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 reviews the applicable legal standards for board member and board committee independence as in effect from time to time, including the applicable independence requirements set forth in the applicable NASDAQ listing standards. The applicable NASDAQ listing standards provide that, in order to be considered independent, our board must determine that a director has no relationship with us, other than as a director, that would interfere with the exercise of independent judgment in carrying out the responsibilities of a director. In making this determination, our board of directors considers all relevant facts and circumstances, including those set forth in the NASDAQ listing standards, which include, among other standards, the following:

A director is not independent if the director is, or has been within the last three years, an employee of the Company or its subsidiaries, or an immediate family member is, or has been within the last three years, an executive officer of the Company or its subsidiaries.

Table of Contents

A director is not independent if the director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company or its subsidiaries, other than director and committee fees, benefits under a tax-qualified retirement plan and amounts received by an immediate family member for service as an employee (other than an executive officer).

A director is not independent if (A) the director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and personally works on the Company's or its subsidiaries' audit; or (D) the director or an immediate family member was within the last three years a partner or employee of such a firm and personally worked on the Company or its subsidiaries' audit within that time.

A director is not independent if the director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the present executive officers of the Company or its subsidiaries at the same time serves or served on that company's compensation committee.

A director is not independent if the director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company or its subsidiaries for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$200,000, or 5% of such other company's consolidated gross revenues.

A director is not independent if the director is an executive officer of a charitable organization that received charitable contributions (other than matching contributions) from the Company and its subsidiaries in the preceding fiscal year that are in excess of the greater of \$200,000 or 5% of such charitable organization's revenues.

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 2011 and who will continue to serve as our directors in 2012, including those directors 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.

Shareholder Communications with the Board of Directors

Our board has adopted a formal process by which shareholders and other interested parties may communicate with our board or any of its directors on board-related issues. Shareholders and other interested parties who wish to communicate with our board or any of 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 shareholder on whose behalf the communication is being sent, and (ii) the number of shares of Entropic common stock beneficially owned by such shareholder 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;

8 Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2011

Table of Contents

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.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2012 9

Table of Contents**BOARD AND COMMITTEE MEMBERSHIP**

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 director to attend our Annual Meeting of Shareholders. At our 2011 Annual Meeting of Shareholders, three of our directors attended in person.

During 2011, our board met ten times in regularly scheduled and special meetings and had three standing committees. Those standing committees consisted of an audit committee, a nominating and corporate governance committee and a compensation committee. Each of our directors attended more than 75 percent of the regularly scheduled and special meetings of the board and board committees on which they served in 2011, held during the period for which they were directors or committee members, respectively.

The table below provides 2011 membership and meeting information for each of the board committees. Mr. Henry was not a member of any board committee in 2011.

Name	Audit	Nominating and Corporate Governance	Compensation
Mr. Robert Bailey ⁺⁺		X	X
Mr. Thomas Baruch ⁺		X*	X
Mr. Keith Bechard	X		
Mr. Amir Mashkoori [#]			
Dr. Kenneth Merchant	X*		
Mr. Umesh Padval		X	X*
Dr. Theodore Tewksbury	X		
Total 2011 Meetings	4	1	6

* Committee Chair

+ Mr. Baruch resigned from the board and from the nominating and corporate governance committee and the compensation committee effective as of April 1, 2012.

⁺⁺ Mr. Bailey was named to the nominating and corporate governance committee, effective February 25, 2012.

[#] Mr. Mashkoori resigned from the board and from the nominating and corporate governance committee effective as of May 18, 2011.

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 four times in 2011. 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

10 Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2011

Table of Contents

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 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 <http://governance.entropic.com>.

Audit Committee Financial Expert

Our board has 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 two-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 one time in 2011. 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 shareholders.

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.

Table of Contents

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 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 shareholder 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, experience and expertise in the composition of the board. The committee retains the right to modify its requirements from time to time. The committee has not adopted a formal policy regarding the consideration of shareholder nominees for directors, but its general policy is to welcome and consider any recommendations for future nominees. Thus, the committee will consider director candidates recommended by our shareholders. 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 shareholder.

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 <http://governance.entropic.com>.

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 2011. Under the terms of its charter, the role of the compensation committee is to:

review and approve (or, if it deems appropriate, make recommendations to the full board of directors regarding) corporate performance goals and objectives, which shall support and reinforce the Company's long-term strategic goals, relevant to the compensation of the Company's executive officers;

evaluate and approve (or, if it deems appropriate, make recommendations to the full board of directors regarding) the compensation plans and programs advisable for the Company, as well as the modification or termination of existing plans and programs;

establish policies with respect to equity compensation arrangements, with the objective of appropriately balancing the perceived value of equity compensation and the dilutive and other costs of that compensation to the Company;

establish policies for allocating between long-term and currently paid-out compensation, between cash and non-cash compensation and the factors used in deciding between the various forms of compensation;

establish elements of corporate performance for purposes of increasing or decreasing compensation;

establish policies on the timing and pricing of equity awards for newly hired employees, promotions and annual grants for executives and non-executive employees and directors;

review regional and industry-wide compensation practices and trends to assess the propriety, adequacy and competitiveness of the Company's executive compensation programs among comparable companies in

Table of Contents

the Company's industry; however, the compensation committee is required to exercise independent judgment in determining the appropriate levels and types of compensation to be paid;

establish and periodically assess the adequacy of director compensation;

establish policies with respect to votes by the Company's shareholders to approve, on an advisory basis, the compensation of the Company's named executive officers as required by Section 14A of the Exchange Act and determine the Company's recommendations regarding the frequency of advisory votes on executive compensation;

review and approve (or, if it deems appropriate, make recommendations to the full board of directors regarding) the terms of any employment agreements, severance arrangements, change-of-control protections and any other compensatory arrangements (including, without limitation, any material perquisites and any other form of compensation) for the Company's executive officers;

review and approve any compensation arrangement for any executive officer involving any subsidiary, special purpose or similar entity;

consider and, if appropriate, establish a policy designed to encourage executive officers and directors to acquire and hold a meaningful equity interest in the Company;

evaluate the efficacy of the Company's compensation policy and strategy in achieving expected benefits to the Company and otherwise further the compensation committee's policies; and

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. Further, as permitted in its charter, the compensation committee has formed and delegated to a non-executive stock option subcommittee authority to grant equity awards to non-officer employees. The processes and procedures of, and the scope of authority granted to the non-executive stock option committee by the compensation committee are described in detail in *Compensation Discussion and Analysis*.

Our board has also determined that each of the members of the compensation committee is independent, within the meaning of the applicable NASDAQ listing standards. In addition, each committee member is a non-employee director as defined under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and is an outside director as defined in section 162(m) of the Internal Revenue Code of 1986, as amended, or the Internal Revenue Code.

A copy of the compensation committee charter is available on our website at <http://governance.entropic.com>.

Compensation Committee Interlocks and Insider Participation

During 2011 the following directors served as members of the compensation committee: Messrs. Baruch, Padval and Bailey. Mr. Baruch resigned from our board and the compensation committee, effective April 1, 2012. No member of our compensation committee has ever been an officer or employee of the Company and no executive officer of the Company currently serves, or has served during the 2011 fiscal year, on the compensation committee or board of directors of any entity that has one or more executive officers serving as a member of our board or compensation committee.

Table of Contents

2011 COMPENSATION OF NON-EMPLOYEE DIRECTORS

Our board has adopted a compensation policy that applies to all of our non-employee directors. In accordance with this policy, our non-employee directors received cash compensation and equity compensation consisting of stock options and restricted stock units, or RSUs, for their annual compensation for the year ended December 31, 2011. The total 2011 compensation of our non-employee directors is shown in the *2011 Director Compensation Table* below. Employee directors do not receive any compensation in connection with their service on our board.

2011 Non-Employee Director Compensation

During 2011, each non-employee director received the following compensation for services on our board pursuant to our 2011 non-employee director compensation policy:

an annual cash retainer of \$30,000 (\$50,000 for our independent chairman); and

for meetings in excess of eight per calendar year, \$1,000 for attending each excess board meeting in person and \$500 for attending each excess board meeting that lasts for more than one hour by telephone.

During 2011, members of board committees received additional annual retainers as follows:

Audit committee: \$20,000 for serving as the chair and \$8,000 for serving as a member of the committee

Nominating and corporate governance committee: \$5,000 for serving as the chair and \$3,000 for serving as a member of the committee

Compensation committee: \$10,000 for serving as the chair and \$5,000 for serving as a member of the committee

Our 2011 non-employee director compensation policy also provided that each board member would receive an additional retainer for serving on any additional standing board committee

that may have been formed from time to time in an amount to be determined by our board of directors at the time the standing committee was formed. Board members are not entitled to an additional retainer for serving on temporary, or adhoc, board committees that may be formed from time to time. During 2011, no additional standing board committees were formed.

All annual retainers are prorated to take into account the date that an individual joins or resigns from the board or committee, as applicable.

We also reimbursed our non-employee directors for their reasonable expenses incurred in attending the meetings of our board and board committees and for attending approved director education programs or seminars.

Under the terms of our 2011 non-employee director compensation policy and our shareholder-approved 2007 non-employee directors stock option plan, or the Directors Plan, on the date of our 2011 Annual Meeting of Shareholders, each non-employee director, whose term on our board continued following such 2011 Annual Meeting of Shareholders and who had served on our board for at least 90 days prior to such 2011 Annual Meeting of Shareholders, was granted an option to purchase 10,000 shares of our common stock. Each such option vests in equal monthly installments over the one year period following the grant date, and had an exercise price of \$8.585 (the closing sale price of our common stock per share as reported on The NASDAQ Global Select Market on the grant date). Also on such date, each non-employee director was granted an RSU award for 5,824 shares of our common stock (representing an aggregate value of \$50,000 based on the \$8.585 closing sale price our common stock per share as reported on The NASDAQ Global Select Market on the grant date). Each such RSU vests in full on the one year anniversary of the grant date.

Table of Contents**2011 Director Compensation Table**

The following table shows the compensation earned by our non-employee directors during the year ended December 31, 2011.

Name	Fees Earned or Paid in Cash (\$)	Stock	Option	Total (\$)
		Awards (\$) ⁽¹⁾	Awards (\$) ^{(2),(3)}	
Mr. Robert Bailey	35,000	49,999	58,600	143,599
Mr. Thomas Baruch*++	40,000	49,999	58,600	148,599
Mr. Keith Bechard	38,000	49,999	58,600	146,599
Mr. Amir Mashkoori+	13,750	0	0	13,750
Dr. Kenneth Merchant*	50,000	49,999	58,600	158,599
Mr. Umesh Padval*#	63,000	49,999	58,600	171,599
Dr. Theodore Tewksbury	38,000	49,999	58,600	146,599

* 2011 Committee Chair

+ Mr. Mashkoori resigned from the board, effective May 18, 2011

++ Mr. Baruch resigned from the board, effective April 1, 2012

Independent Chairman

- (1) Under the Directors' Plan, each non-employee director who continued serving on the board following the 2011 Annual Meeting of Shareholders automatically received an RSU award of 5,824 shares of our common stock, calculated by dividing \$50,000 by the \$8.585 closing price of our common stock on the date of grant as reported by The NASDAQ Global Select Market. The RSUs vest in full on the one year anniversary of the grant date.
- (2) Under the Directors' Plan, each non-employee director who continued serving on the board following the 2011 Annual Meeting of Shareholders automatically received an annual grant of an option to purchase 10,000 shares of our common stock at the exercise price of \$8.585 per share, the closing price of our common stock on the date of grant as reported by The NASDAQ Global Select Market. These options vest in equal monthly installments over a 12-month period.
- (3) The reported values of these option awards reflect the aggregate grant date fair value computed in accordance with Financial Accounting Standards Board Accounting Standards Codification, or FASB ASC, Topic 718 that are attributable to stock option awards granted to the non-employee directors during the year 2011. As these values reflect the aggregate grant date fair value, they do not necessarily correspond to the actual value that may be recognized by the non-employee directors. The assumptions that we made to determine the value of our awards for accounting purposes are described in detail under the section titled *Stock-Based Compensation Expense* in Note 6 of the notes to consolidated financial statements included in our Annual Report on Form 10-K filed with the SEC on February 3, 2012, or the Annual Report.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Table of Contents

SECURITIES OWNERSHIP

The table below sets forth certain information known to us with respect to the number of shares of our common stock and the percentage of our outstanding common stock beneficially owned as of February 29, 2012 by (i) each individual and entity known by us to beneficially own more than five percent of our common stock, (ii) each of our directors (including the nominees for director named in this proxy statement), (iii) each executive officer who is listed on the *2011 Summary Compensation Table*, or the named executive officers, and (iv) all of our current directors and executive officers as a group. The reported percentage ownership is calculated based on 87,396,153 shares outstanding as of February 29, 2012, adjusted pursuant to the rules and regulations of the SEC.

Name and Address of Beneficial Owner	Beneficial Ownership ⁽¹⁾ Number of Shares Issuable				Percent of Total
	Beneficially Owned	Issuable Pursuant to RSUs ⁽²⁾	Upon Exercise of Stock Options ⁽³⁾	Total	
Five percent or greater shareholders					
BlackRock, Inc. ⁽⁴⁾ 40 East 52nd Street New York, NY 10022	6,102,787			6,102,787	7.0%
Directors and named executive officers					
Mr. Robert Bailey			29,383	29,383	*
Mr. Thomas Baruch ⁽⁵⁾	3,620,749		98,549 ⁽⁶⁾	3,719,298	4.3%
Mr. Keith Bechard			58,113	58,113	*
Mr. William Bradford ⁽⁵⁾	29,561		33,961	63,522	*
Mr. Lance Bridges	66,566	2,850	116,980	186,396	*
Mr. Vinay Gokhale		3,000	135,750	138,750	*
Mr. Patrick Henry	839,374	13,500	905,601 ⁽⁷⁾	1,758,475	2.0%
Mr. David Lyle	16,680	4,500	243,261	264,441	*
Dr. Kenneth Merchant	82,543		145,934	228,477	*
Mr. Umesh Padval	30,769		88,780	119,549	*
Dr. Theodore Tewksbury			29,383	29,383	*
All executive officers and directors as a group (14 persons)⁽⁵⁾	4,690,266	26,750	2,022,320	6,739,336	7.5%

* Less than one percent.

(1) The information reported in this table is compiled from information that our executive officers and directors have supplied to us and through our good faith review of our stock records, which are maintained by our Transfer Agent, and Schedules 13G that are available to us from the SEC's website. Unless we have otherwise indicated in the footnotes to this table, and subject to community property laws where applicable, we believe that each of the shareholders named in this table has sole voting and investment power with respect to the shares indicated as beneficially owned by them. The beneficial ownership of shares of our common stock is determined in accordance with the rules of the SEC and generally includes voting or investment power with respect to securities. Shares of common stock subject to options or RSUs currently exercisable or vested and issuable, or that will be exercisable or vested and issuable within 60 days of February 29, 2012, are deemed to be beneficially owned by the person holding such option or warrant for computing the percentage of ownership but are not treated as outstanding for computing the percentage of ownership of any other person.

(2) Including shares of common stock that are vested and issuable or that will vest and become issuable within 60 days of February 29, 2012 pursuant to RSUs.

(3) Including shares of common stock which may be acquired through the exercise of stock options that are currently exercisable or will become exercisable within 60 days of February 29, 2012.

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form DEF 14A

- (4) This information is based on the Schedule 13G filed with the SEC on February 2, 2012 by BlackRock, Inc., which reflects beneficial ownership as of December 31, 2011. BlackRock, Inc. report that it had beneficial ownership of, and sole voting and dispositive power with respect to, 6,102,787 shares of our common stock.

16 Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2011

Table of Contents

- (5) Mr. Baruch resigned from our board of directors effective April 1, 2012 and Mr. Bradford resigned as our senior vice president, worldwide sales effective January 3, 2012. If Mr. Baruch's and Mr. Bradford's shareholdings are excluded (along with the shareholdings of Dr. Lookabaugh, our former chief technology officer, whose resignation became effective on February 10, 2012, and whose shareholdings are included in the shareholdings of our directors and named executive officers as a group), our directors and named executive officers as a group would own 2,908,391 shares of our common stock, or 3.3 percent of our outstanding stock as of February 29, 2012.
- (6) These shares include 3,207,566 shares held by CMEA Ventures Information Technology II, L.P., or CMEA IV, and 402,573 shares held by CMEA Ventures Information Technology II, Civil Law Partnership, or CMEA IV Parallel. By virtue of CMEA IV's and CMEA IV Parallel's relationship as affiliated limited partnerships whose general partner and managing partner is CMEA Ventures IT Management II, L.P., or CMEA IV Management, CMEA IV and CMEA IV Parallel may each be deemed to share the power to direct the disposition and vote all of these shares. As the sole general partner and managing partner of CMEA IV and CMEA IV Parallel, CMEA IV Management may be deemed to own beneficially all of these shares. As the individual general partners of CMEA IV Management, Mr. Thomas Baruch, a member of our board, and Mr. James Watson likewise may be deemed to own beneficially all of these shares. Mr. Baruch disclaims beneficial ownership of these shares.
- (7) Of these shares, 353,628 shares, 155,580 shares and 155,580 shares are held by the Patrick C. Henry and Wendy A. Henry Family Trust, the Patrick C. Henry 2007 Annuity Trust and the Wendy A. Henry 2007 Annuity Trust, respectively, of which Mr. Henry and his wife, Wendy Henry, are co-trustees.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Table of Contents

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE, RELATED PERSON TRANSACTIONS AND INDEMNIFICATION

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and executive officers, as well as persons who own more than 10 percent of a registered class of our equity securities, to file with the SEC and NASDAQ initial reports of beneficial ownership and reports of changes in beneficial ownership of our common stock and other equity securities. Our directors, executive officers and those holders of more than 10 percent of our equity securities, if any, are required by SEC regulation to furnish us with copies of all Section 16(a) forms that they file. Based on our review of the copies of such reports furnished to us and written representations that no other reports were required, we believe that in 2011, all of our directors and executive officers who are subject to Section 16(a) of the Exchange Act met all applicable filing requirements.

REVIEW OF RELATED PERSON TRANSACTIONS

Our board adopted a written Related-Person Transactions Policy, which is administered by our audit committee, that sets forth our policies and procedures regarding the identification, review, consideration and oversight of any transaction or series of transactions involving more than \$120,000 and in which we and one or more related persons are participating. We refer to these transactions as related person transactions. For purposes of our policy only, a related person is any executive officer, director or beneficial owner of more than five percent of our capital stock, including their immediate family members and their affiliates.

Under the policy, our audit committee must approve each related person transaction before it is consummated. In the event that it is inappropriate for the audit committee to review a related person transaction for reasons of conflict of interest or otherwise, an independent body of our board will review and provide

oversight over the approval of the transaction. Each of our directors and executive officers are required to identify to the audit committee any related person transaction involving such director, executive officer or shareholder or any of their immediate family members or affiliates.

Based on its consideration of all of the relevant facts and circumstances, the audit committee will decide whether or not to approve a related person transaction and will approve only those transactions that are in our best interests and the best interests of our shareholders. If we become aware of an existing related person transaction that has not been approved under our Related-Person Transactions Policy, the matter will be referred to the audit committee and the audit committee will evaluate all options available to it, including ratification, revision or termination of the transaction.

TRANSACTIONS WITH RELATED PERSONS

Since January 1, 2011, we have not entered into any related person transactions involving more than \$120,000 other than transactions involving equity and other compensation, termination, change of control and other arrangements for our directors and executive officers that are described under *2011 Compensation of Non-Employee Directors*, in the case of our non-employee directors, and under *Executive Compensation*, in the case of our executive officers.

INDEMNIFICATION

We indemnify our directors and officers to the fullest extent permitted by law so that they will be free from undue concern about personal liability in connection with their service to the Company. This is required under our amended and restated bylaws, and we have also entered into agreements with certain of those individuals contractually obligating us to provide this indemnification to them.

Table of Contents

PROPOSALS REQUIRING YOUR VOTE

ITEM 1 ELECTION OF DIRECTORS

Classified Board

Our board is divided into three classes, with each class having a three-year term. The terms of the three classes expire as follows:

Class I: expires at the 2014 Annual Meeting of Shareholders;

Class II: expires at the 2012 Annual Meeting of Shareholders; and

Class III: expires at the 2013 Annual Meeting of Shareholders.

The board tries to ensure that each class consists, as nearly as possible, of one-third of the total number of directors. As of the date of this proxy statement, our board has six members, comprising one Class I director (after giving effect to the resignation of Mr. Baruch, effective April 1, 2012), two Class II directors and three Class III directors. Vacancies on our board may be filled only by persons elected by a majority of the remaining directors. A director elected by the board to fill a vacancy in a class, including a vacancy created by an increase in the number of directors, shall serve for the remainder of the full term of that class and until that director's successor is elected and qualified.

As of the date of this proxy statement, there are two directors in Class II, the class whose term of office expires in 2012. The current Class II directors are Dr. Merchant and Mr. Padval. The nominees for the board's two Class II directors are Dr. Merchant and Mr. Padval. Dr. Merchant has served as a member of our board of directors since April 2007. Mr. Padval has served as a member of our board of directors since December 2004 and has been our independent chairman since January 2009. Our board of directors has approved the nomination

of each of Dr. Merchant and Mr. Padval for reelection as Class II directors at the 2012 Annual Meeting of Shareholders (with each nominee abstaining from voting on his own nomination). If elected at the 2012 Annual Meeting of Shareholders, each nominee would serve until the 2015 Annual Meeting of Shareholders and until his successor is elected and has qualified, or, if sooner, until his death, resignation or removal.

Directors are elected by a plurality of the votes of the holders of shares present in person or represented by proxy and entitled to vote on the election of directors. The two nominees receiving the highest number of votes will be elected. Shares represented by executed proxies will be voted, if authority to do so is not expressly withheld (as indicated on the proxy card), for the election of the two nominees. If any nominee becomes unavailable for election as a result of an unexpected occurrence, your shares will be voted for the election of a substitute nominee proposed by our nominating and corporate governance committee. Each person nominated for election to our board of directors has agreed to serve if elected. Our management has no reason to believe that any nominee will be unable to serve.

The principal occupation of, and certain other information about the nominees for the board's two Class II director seats, and our Class I and Class III directors are set forth on the following pages.

Our board has appointed our president and chief executive officer, and our chief financial officer to vote the proxy (if you are a shareholder of record) for the election of Dr. Merchant and Mr. Padval as Class II directors, unless you indicate otherwise on the proxy card.

Your board of directors unanimously recommends a vote FOR

the election of each of the named nominees as directors.

Table of Contents

NOMINEE FOR CLASS II DIRECTOR

For a Three-Year Term Expiring at the 2015 Annual Meeting of Shareholders

**Name and Age as of the
May 15, 2012 Annual Meeting
Kenneth Merchant, Ph.D**

**Position, Principal Occupation, Business Experience and
Directorships**

65 Dr. Merchant has served as a member of our board since April 2007. Since 1997, Dr. Merchant has held the Deloitte & Touche LLP Chair of Accountancy at the University of Southern California, or USC. Dr. Merchant has also served as senior associate dean corporate programs in USC's Marshall School of Business and as dean of USC's Leventhal School of Accounting. Before joining USC, Dr. Merchant taught at Harvard University and the University of California, Berkeley. Dr. Merchant started his professional career at Texas Instruments, Inc. and an independent accounting firm that was a predecessor of Ernst & Young LLP. He was a director of Universal Guardian Holdings, Inc., a public company, from 2006 to 2008 and Diagnostic Products Corporation, a public company that is now a part of a part of Siemens Medical Solutions, from 2003 to 2006. Dr. Merchant holds a B.A. in industrial economics from Union College, an M.B.A. in operations research and production from Columbia University and a Ph.D. in accounting from the University of California, Berkeley.

Key Attributes, Experience and Skills

Dr. Merchant joined our board in 2007 when we were considering an initial public offering of our stock and we sought to add someone with a strong accounting and finance background. Dr. Merchant's academic research interests include subjects relevant to his service on our board, including accounting, corporate governance, risk management and executive compensation. In addition to his financial experience gained through his formal education, his prior audit industry experience with Ernst & Ernst (now Ernst & Young) and his current and past academic positions at USC, Dr. Merchant has prior experience as a member of the boards of other public companies. Dr. Merchant brings to the board valuable financial and risk management expertise and serves as our designated financial expert on our audit committee.

Table of Contents

NOMINEE FOR CLASS II DIRECTOR

For a Three-Year Term Expiring at the 2015 Annual Meeting of Shareholders

Name and Age as of the May 15, 2012 Annual Meeting	Position, Principal Occupation, Business Experience and Directorships
Umesh Padval 54	Mr. Padval has served as a member of our board since December 2004 and has been our independent chairman since January 2009. Mr. Padval currently serves as a partner at Bessemer Venture Partners, a venture capital firm. Prior to joining Bessemer in September 2007, Mr. Padval served as executive vice president, consumer products at LSI Corporation, a storage technology, networking and consumer electronics company. Prior to his promotion to executive vice president, consumer products, Mr. Padval was senior vice president and general manager for LSI's broadband entertainment division, a position he held from 2001 until his promotion. Mr. Padval served as chief executive officer of C-Cube Microsystems, from 2000 until its acquisition by LSI in 2001, its president from 1998 to 2000, and a member of its board of directors from 1998 to 2001. Previously, Mr. Padval was senior vice president and general manager of the consumer digital entertainment division at VLSI Technology, Inc., an integrated circuits company that was acquired by Koninklijke Philips Electronics N.V. Mr. Padval also served as senior vice president and general manager for VLSI's computing division. Before joining VLSI in 1987, Mr. Padval held marketing and engineering positions at AMD. Mr. Padval currently serves on the board of directors of the public company Integrated Device Technology, Inc., and on the boards of directors of several private companies. Mr. Padval holds a Bachelor of Technology from the Indian Institute of Technology, Bombay and an M.S. in engineering from Stanford University.

Key Attributes, Experience and Skills

Mr. Padval has served on our board for more than six years, and in 2009 he assumed the role of chairman of the board. Having served as chief executive officer and in senior management positions at leading public and private electronics and semiconductor companies such as LSI, C-Cube Microsystems and VLSI, and as a seasoned public-company director who currently serves on the board of Integrated Device Technology, Inc., Mr. Padval brings strong operations, engineering, management and boardroom experience to our board.

Table of Contents

CLASS I DIRECTOR

Term Expiring at the 2014 Annual Meeting of Shareholders

**Name and Age as of the
May 15, 2012 Annual Meeting
Patrick Henry**

49 **Position, Principal Occupation, Business Experience and Directorships**
Mr. Henry has been our chief executive officer and member of our board of directors since September 2003 and president since February 2008. Mr. Henry also served as chairman of our board of directors from July 2007 to January 2009 and as our president from September 2003 to July 2007. From February 2003 to September 2003, Mr. Henry was president and chief executive officer of Pictos Technologies Inc., a developer of digital imaging products which was acquired by ESS Technology. Prior to 2003, Mr. Henry served as chief executive officer of Lincom Wireless, Inc., a chip manufacturing company focused on 802.11 wireless LAN products, vice president and general manager at LSI Logic Corporation, a provider of silicon, systems and software technologies, and senior vice president at C-Cube Microsystems Inc., a developer of digital video integrated circuits. Mr. Henry has served on the board of directors of Zenverge, Inc., a privately held semiconductor company, since September 2011. Mr. Henry holds a B.S. in engineering science and mechanics from the Georgia Institute of Technology and an M.B.A. from the University of Southern California.

Key Attributes, Experience and Skills

Mr. Henry brings leadership, extensive business and operating experience, and tremendous knowledge of our Company and the semiconductor industry, to our board. Mr. Henry has been our chief executive officer and a member of our board since 2003. He has led the Company through its dynamic transition from a start-up through the successful commercialization of its technologies, its initial public offering and several acquisitions. Prior to joining the Company, Mr. Henry served as chief executive officer and in senior management roles at various companies in the electronics or semiconductor industries. In addition, he brings broad strategic vision for our Company. Mr. Henry's service on our board creates a critical link between management and the board, enabling the board to perform its oversight function with the benefits of management's perspectives on our business.

Table of Contents

CLASS III DIRECTOR

Term Expiring at the 2013 Annual Meeting of Shareholders

**Name and Age as of the
May 15, 2012 Annual Meeting
Keith Bechard**

60 **Position, Principal Occupation, Business Experience and Directorships**
 Mr. Bechard has served as a member of our board since June 2009. Since March 2002, Mr. Bechard has been the owner of Pear Lake Consulting, LLC, a consulting company, through which Mr. Bechard currently serves a consultant to Charter Communications, Inc., and previously served as a consultant to Time Warner Cable, Inc. and Canoe Ventures LLC and as an executive advisor to NGNA, LLC d/b/a Polycipher, both of which are cable industry joint ventures in which Comcast Corporation, Time Warner Cable and Cox Communications, Inc. are members. Before forming his own consulting company, from July 2000 to March 2002, Mr. Bechard was vice president, video product engineering with AT&T Inc.'s broadband division, where he was responsible for deploying advanced digital set tops and launching systems to provide interactive television services. Mr. Bechard holds a B.S. in electrical engineering and computer science from the University of Colorado.

Key Attributes, Experience and Skills

Mr. Bechard brings extensive technical expertise in interactive television services, high definition television and service provider deployments to our board. Additionally, in his current role as a consultant to Charter Communications and his prior roles as consultant to the U.S. cable television industry through Time Warner Cable, Canoe Ventures and Polycipher, and vice president of video product engineering for AT&T Inc.'s broadband division, he has acquired significant experience and contacts in the primary markets and with some of the largest end-user customers that we serve.

Table of Contents

CLASS III DIRECTOR

Term Expiring at the 2013 Annual Meeting of Shareholders

**Name and Age as of the
May 15, 2012 Annual Meeting
Robert Bailey**

**Position, Principal Occupation, Business Experience and
Directorships**

54 Mr. Bailey joined our board in 2010. Prior to his retirement in 2011, Mr. Bailey served as the president and chief executive officer of PMC-Sierra, Inc., a semiconductor solutions company, from 1997 to 2008, and as its chairman from 2000 to 2003 and from 2005 to 2011. Mr. Bailey also served as the president of PMC-Sierra, Inc.'s subsidiary, PMC-Sierra, Ltd., from 1993 to 2011. Prior to joining PMC Sierra, Mr. Bailey served as the vice president and general manager of AT&T Microelectronics (now part of LSI Logic), a semiconductor company, from 1989 to 1993, and served in various management positions at Texas Instruments, an analog technologies, semiconductor and signal processing company, from 1979 to 1989. Mr. Bailey is also a director of Micron Technology, Inc., a publicly traded company that provides advanced semiconductor memory solutions. Mr. Bailey received a BS in Electrical Engineering from the University of Bridgeport and an MBA from the University of Dallas. He also attended Stanford University Business School's AEA Executive Training.

Key Attributes, Experience and Skills

Mr. Bailey brings extensive business and operating experience to our board as the former CEO of a leading company in our industry. Mr. Bailey is also a seasoned public-company director who currently serves on the board of Micron Technology, Inc. We believe that Mr. Bailey's leadership skills and his many years of relevant industry experience make him a valuable asset to our board.

Table of Contents

CLASS III DIRECTOR

Name and Age as of the May 15, 2012 Annual Meeting	Term Expiring at the 2013 Annual Meeting of Shareholders	Position, Principal Occupation, Business Experience and Directorships
Theodore Tewksbury, Ph.D.	55	Dr. Tewksbury joined our board in 2010. Dr. Tewksbury is currently the president and chief executive officer and a member of the board of directors of Integrated Device Technology Inc., a publicly traded, mixed signal semiconductor solutions company. Prior to joining Integrated Device Technology in 2008, he was the president and chief operating officer of AMI Semiconductor, a semiconductor company, from 2006 to 2008. Prior to that, Dr. Tewksbury served as managing director at Maxim Integrated Products, Inc., a designer, manufacturer and seller of high-performance semiconductor products, from 2000 to 2006. Dr. Tewksbury is a member of the board of directors of Global Semiconductor Alliance. Dr. Tewksbury holds a BS, an MS, and a Ph.D. in Electrical Engineering from the Massachusetts Institute of Technology.

Key Attributes, Experience and Skills

Dr. Tewksbury brings extensive general management and technical expertise to our board. As the CEO and director of a public company in our industry, Dr. Tewksbury has current semiconductor company leadership and relevant board experience. Moreover, Dr. Tewksbury has a strong technical background, which is an asset to our board given the technical nature of our products and product development processes.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Table of Contents

ITEM 2 ADVISORY VOTE ON THE APPROVAL OF THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS (SAY-ON-PAY VOTE)

We are asking our shareholders to approve, on an advisory basis, the compensation of our named executive officers (which consists of our chief executive officer, chief financial officer and our other three highest paid executive officers), as such compensation is disclosed in this proxy statement, including the Compensation Discussion and Analysis, the 2011 Summary Compensation Table and the other related tables and disclosures.

Our board of directors recognizes the interest our investors have in the compensation of our executives. In recognition of that interest, as a matter of good corporate governance, and as required by Section 14A of the Securities Exchange Act of 1934, as amended, we are providing our shareholders with the opportunity to cast a non-binding advisory vote on the compensation of our named executive officers, as disclosed pursuant to the compensation disclosure rules of the SEC (also referred to as say-on-pay). As described in our Compensation Discussion and Analysis, we have adopted an executive compensation philosophy designed to attract, retain and motivate talented employees at all levels within our organization to enhance further long-term shareholder value.

The primary objectives of our executive compensation program are:

establishing compensation for our executive officers that is externally competitive;

aligning compensation with our short-term and long-term performance;

building shareholder value by providing incentives based on achievement of corporate goals; and

providing differentiated compensation based on individual performance.

In order to implement those objectives, we provide a total compensation package to our

executive officers through a mix of salary, bonus and long-term equity compensation that is designed to be competitive with comparable companies within the semiconductor and other high technology industries and to reward our executive officers for achieving certain performance criteria, including growth in revenues and profitability (as measured on a non-GAAP basis) on a year-over-year basis. The compensation committee has established a disciplined process for the adoption of executive compensation programs and individual executive officer compensation decisions that includes the analysis of competitive market data, a review of each executive officer's role and performance assessment and consultation with the compensation committee's independent compensation consultant. Since 2007, the year in which Entropic became a public company, the compensation committee has followed that process designed to align executive compensation programs and individual pay actions with the Company's executive compensation philosophy.

The compensation committee believes that our executive compensation programs, executive officer pay levels and individual compensation decisions approved for our executive officers, including our named executive officers, are directly aligned with our executive compensation philosophy, fully support its goals and provide an appropriate balance between risk and incentives. Shareholders are urged to read the *Compensation Discussion and Analysis* section of this proxy statement, which discusses in greater detail how our compensation policies and procedures implement our executive compensation philosophy.

Consistent with the preference expressed by our shareholders at the Company's 2011 Annual Meeting of Shareholders, the board has approved holding a say-on-pay advisory vote every year. In accordance with this policy and Section 14A of the Securities Exchange Act of 1934, as amended, and as a matter of good

Table of Contents

corporate governance, we are asking shareholders to approve the following advisory resolution at the annual meeting:

RESOLVED, that the shareholders of Entropic Communications, Inc. approve, on an advisory basis, the compensation of the named executive officers of the Company, as disclosed in the proxy statement for the 2012 Annual Meeting of Shareholders pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2011 Summary Compensation Table and the other related tables and disclosures.

The approval of a majority of our shares represented at the meeting, whether in person or by proxy, is required for advisory (non-binding) approval of the compensation of our named executive officers, as described in this proxy statement. Abstentions will have the same effect as a vote Against this proposal.

Broker non-votes are counted toward a quorum, but are not counted for any purpose in determining whether this proposal is approved. The vote is advisory, and therefore not binding on the Company, the compensation committee or our board of directors. Although non-binding, our board of directors and the compensation committee will review and consider the voting results when making future decisions regarding our executive compensation program. Unless the board modifies its policy on the frequency of future say-on-pay advisory votes, the next say-on-pay advisory vote will be held at the 2013 annual meeting of shareholders.

Our board has appointed our president and chief executive officer, and our chief financial officer to vote the proxy (if you are a shareholder of record) for the approval of our executive compensation of our named executive officers as described in this proxy statement, unless you indicate otherwise on the proxy card.

Your board of directors unanimously recommends a vote FOR this proposal.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Table of Contents

ITEM 3 RATIFICATION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The audit committee has selected Ernst & Young LLP to serve as our independent registered public accounting firm for the fiscal year ending December 31, 2012, and has further directed that management submit the selection of Ernst & Young LLP for ratification by our shareholders at the Annual Meeting.

Representatives of Ernst & Young LLP will be present at the Annual Meeting to answer questions. They will also have the opportunity to make a statement if they desire to do so. Ernst & Young has audited our financial statements since 2001.

We are asking our shareholders to vote for the ratification of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012. Although ratification is not required by our amended and restated bylaws or otherwise, the board is submitting the selection of Ernst & Young LLP to our shareholders for ratification because we value our shareholders' views on the Company's independent registered public accounting firm and as a matter of good corporate practice. In the event our shareholders fail to ratify the selection, our audit

committee will reconsider whether or not to retain Ernst & Young LLP or to select a different firm to serve as our independent registered public accounting firm. Even if the selection is ratified, our audit committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and our shareholders.

Shareholder approval of this proposal requires a for vote from at least a majority of the shares represented at the meeting, whether in person or by proxy. Abstentions will have the same effect as a vote Against this proposal. Broker non-votes are counted towards a quorum, but are not counted for any purpose in determining whether this proposal is approved.

Our board has appointed our president and chief executive officer, and our chief financial officer to vote the proxy (if you are a shareholder of record) for the ratification of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012, unless you indicate otherwise on the proxy card.

Your board of directors unanimously recommends a vote FOR the ratification of the selection of

Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2012.

Table of Contents**Audit and Non-Audit Fees**

The following table presents the aggregate fees for professional services billed by Ernst & Young LLP for the audit of our annual financial statements for the years ended December 31, 2011 and 2010, and fees billed for other services rendered by Ernst & Young LLP during those periods. All of the fees set forth in the following table were pre-approved by our audit committee.

	Year Ended December 31,	
	2011	2010
Audit fees: ⁽¹⁾	\$ 659,813	\$ 712,217
Audit-related fees: ⁽²⁾	121,315	
Tax fees: ⁽³⁾	351,556	64,000
All other fees: ⁽⁴⁾		
Total	\$ 1,132,684	\$ 776,217

(1) Audit fees were principally for audit work performed on the consolidated financial statements and internal control over financial reporting and registration statements filed with the SEC.

(2) Audit related fees were for acquisition related due diligence associated with potential mergers and acquisitions.

(3) Tax fees were for services related to tax compliance, tax advice and planning (domestic and international).

(4) Ernst & Young LLP did not provide any other services during these periods.

Policy on Audit Committee Pre-Approval of Audit and Permissible Non-Audit Services of Independent Registered Public Accounting Firm

Consistent with the requirements of the SEC and the Public Company Accounting Oversight Board, or PCAOB, regarding auditor independence, our audit committee has responsibility for appointing, setting compensation and overseeing the work of the independent registered public accounting firm. In recognition of this responsibility, our audit committee has established a policy for the pre-approval of all audit and permissible non-audit services provided by the independent registered public accounting firm.

Prior to the engagement of the independent registered public accounting firm for the next year's audit, management submits a list of services falling within the four categories below expected to be rendered by the firm during that year and the related fees to the audit committee for approval.

1. **Audit** services include audit work performed on the financial statements, as well as work, including information systems and procedural review and testing, that is required to be performed by the independent registered public accounting firm to allow the firm to form an opinion on the Company's financial statements. Audit services also include services that only the independent registered public accounting firm can reasonably be expected to provide, including comfort letters and statutory audits.
2. **Audit-related** services are for assurance and related services that are reasonably related to the performance of the audit or review of our financial statements and/or internal control over financial reporting or that are traditionally performed by the independent registered public accounting firm and include due diligence related to mergers and acquisitions, audits of employee benefit plans and special procedures

Edgar Filing: ENTROPIC COMMUNICATIONS INC - Form DEF 14A

required to meet certain regulatory requirements.

3. **Tax** services include services such as tax compliance, tax planning and tax advice, as long as such services do not impair the independence of the independent registered public accounting firm and are

Notice of Annual Meeting of Shareholders and Proxy Statement April 14, 2012 29

Table of Contents

consistent with the SEC's rules on auditor independence.

4. *All other* services are those services not captured in the audit, audit-related or tax categories.

Prior to engagement, the audit committee pre-approves the independent registered public accounting firm's services within each of the four categories described above and the fees for each category are budgeted. The audit committee requires the independent registered public accounting firm and management to report actual fees versus the budgeted amount periodically throughout the year by category of services. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval categories. In those instances, the audit committee requires specific pre-approval before engaging the independent registered public accounting firm.

The audit committee may delegate pre-approval authority to one or more of its members provided that such member must report, for informational purposes only, any pre-approval decisions to the audit committee at its next scheduled meeting.

The audit committee has determined that the rendering of services other than audit services by Ernst & Young LLP is comparable with maintaining Ernst & Young LLP's independence.

Report of the Audit Committee

The audit committee assists the board in fulfilling its oversight responsibility over the Company's financial reporting process. It is not the duty of the audit committee to plan or conduct audits or to prepare the Company's financial statements. Management has the primary responsibility for preparing the financial statements and assuring their accuracy, effectiveness and completeness. Management is also responsible for the reporting process, including the system of internal controls. The independent registered public accounting firm is responsible for auditing the Company's financial statements and internal control over financial

reporting and expressing its opinion as to whether the statements present fairly, in accordance with accounting principles generally accepted in the United States, the Company's financial condition, results of operations and cash flows. However, the audit committee does consult with management and the independent registered public accounting firm prior to the presentation of financial statements to the Company's shareholders and, as appropriate, initiates inquiries into various aspects of the Company's financial affairs.

Unless the audit committee has reason to question its reliance on management or the independent registered public accounting firm, the members of the audit committee necessarily rely on information provided to them by and on the representations made by management and the independent registered public accounting firm. Accordingly, the audit committee's oversight does not provide an independent basis to determine that management has applied appropriate accounting and financial reporting principles. Furthermore, the audit committee's authority and oversight responsibilities do not independently assure that the audits of the Company's financial statements have been carried out in accordance with the standards of the PCAOB or that the financial statements are presented in accordance with accounting principles generally accepted in the United States.

In this context, the audit committee has met and held discussions with management and the independent registered public accounting firm regarding the Company's audited 2011 consolidated financial statements (including the

quality of the Company's accounting principles). Management represented to the audit committee that the Company's consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States, and the audit committee consulted with management and the independent registered public accounting firm prior to approving the presentation of the audited 2011 consolidated financial statements to the Company's shareholders. The audit committee discussed with the independent registered public accounting firm the matters

Table of Contents

required to be discussed by Statement on Auditing Standards No. 61, as amended (AICPA, *Professional Standards*, Vol. 1, AU Section 380), as adopted by the PCAOB in Rule 3200T.

The audit committee has reviewed and discussed with the independent registered public accounting firm the auditor's independence from the Company and its management. As part of that review, the audit committee received the written disclosures and letter required by the applicable requirements of the PCAOB regarding the independent accountant's communications with the audit committee concerning independence. The audit committee has also considered whether the provision of non-audit services by the independent registered public accounting firm is compatible with, or has compromised, the auditor's independence. The audit committee has concluded that the independent registered public accounting firm is independent from the Company and its management.

Based on the reviews and discussions referred to above, the audit committee recommended to

the board, and the board has approved, that the audited consolidated financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2011, for filing with the SEC. The audit committee has selected Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2012.

The Audit Committee

Dr. Kenneth Merchant (Chair)

Mr. Keith Bechard

Dr. Theodore Tewksbury

The Report of the Audit Committee does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other Company filing under the Securities Act of 1933, as amended, or the Securities Act, or the Exchange Act, except to the extent the Company specifically incorporates the Report of the Audit Committee by reference therein.

[REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]

Table of Contents

Executive Compensation

COMPENSATION COMMITTEE REPORT

The compensation committee has reviewed and discussed with management the following *Compensation Discussion and Analysis* section of the Company's 2012 proxy statement. Based on its review and discussions, the compensation committee has recommended to the board of directors that the *Compensation Discussion and Analysis* be included in Entropic's proxy statement for 2012 and incorporated by reference into the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

The Compensation Committee

Mr. Umesh Padval (Chair)

Mr. Robert Bailey

The Report of the Compensation Committee does not constitute soliciting material, and shall not be deemed to be filed or incorporated by reference into any other Company filing under the Securities Act or the Exchange Act, except to the extent the Company specifically incorporates the Report of the Compensation Committee by reference therein.

COMPENSATION DISCUSSION AND ANALYSIS

This *Compensation Discussion and Analysis* describes Entropic's executive compensation program for 2011. We use this program to motivate and reward those whom our board has selected to lead our business.

This section of the proxy statement explains how the compensation committee made its compensation decisions for the following named executive officers for 2011: our president and chief executive officer, Mr. Patrick Henry; our chief financial officer, Mr. David Lyle; and our three other most highly

compensated executive officers: Mr. William Bradford, our former senior vice president, worldwide sales; Mr. Lance Bridges, our senior vice president, general counsel and corporate secretary; and Mr. Vinay Gokhale, our senior vice president, marketing and business development. Mr. Bradford resigned as our senior vice president, worldwide sales effective as of January 3, 2012. The compensation for these individuals is listed in the *Executive Compensation Tables* section of this proxy statement.

Table of Contents

Philosophy and Goals of Our Executive Compensation Program

Our compensation philosophy is established by our compensation committee under authority granted by our board of directors. We seek to develop compensation packages for our employees that will allow us to attract, retain and motivate talented employees at all levels within the organization to enhance further long-term shareholder value. The primary objectives of our executive compensation program are: establishing compensation for our executive officers that is externally competitive, aligning compensation with our short-term and long-term performance, building shareholder value by providing incentives based on achievement of corporate goals and providing differentiated compensation based on individual performance. In order to implement those objectives we provide a total compensation package to our executive officers through a mix of salary, bonus and long-term equity-based compensation that is designed to be competitive with comparable companies within the semiconductor and other high technology industries, and to reward our executive officers for achieving certain performance criteria, including growth in revenues and profitability (as measured on a non-GAAP basis) on a year-over-year basis.

The details of our executive compensation program and how the compensation committee reached its compensation decisions for our named executive officers are discussed in detail in the remainder of this *Compensation Discussion and Analysis* section of this proxy statement.

Executive Summary

Overview of Our Compensation Program

We believe that attracting and retaining talented management personnel is required in order to deliver superior shareholder value, and that a competitive compensation program is critical to that end. Therefore, we intend to provide a competitive compensation package to our executives, tie a significant portion of compensation to performance and utilize components that best align the interests of our executives with those of our shareholders.

The following is a summary of important aspects of our executive compensation program discussed later in this *Compensation Discussion and Analysis*.

The key elements of our executive compensation program are base salary, incentive bonus and long-term equity-based compensation consisting of stock options and restricted stock units, or RSUs.

We emphasize pay-for-performance in order to align executive compensation with our business strategy and the creation of long-term shareholder value.

While we emphasize at risk pay tied to performance, we believe our program does not encourage excessive risk taking by management. We have change of control agreements with our executives to help provide continuity of management in the event of a change of control of our company.

In 2011 a significant portion of our executive officers' total compensation was linked to our 2011 performance. We consider this compensation, comprised of an executive's bonus and equity-based incentives, to be at risk. In the case of an executive officer's bonus, no amount is paid unless certain performance criteria are achieved. In the case of an executive officer's stock options, no value is realized unless the market price of our common stock increases after the date of grant. In the case of an executive officer's RSUs, the value realizable once the RSU vests and is released is variable based on the market price of our common stock on each vesting date. Because the benefits associated with our management bonus plan and equity-based incentives depend on meeting pre-determined performance criteria or depend on increases in our stock price, these elements of executive compensation are performance-based and considered to be at risk.

In 2011, the compensation of each of Mr. Henry, Mr. Lyle, Mr. Bradford, Mr. Bridges

Table of Contents

and Mr. Gokhale that was comprised of bonuses and equity-based incentives, and therefore considered to be at risk, was 82, 68, 61, 61 and 61 percent of their respective total compensation for 2011. These percentages take into account the lack of bonus payment in 2011 under our management bonus plan, as further described in the section of this *Compensation Discussion and Analysis* titled Performance-Based Cash Bonuses. If the Company had achieved 2011 revenues and non-GAAP operating income in amounts sufficient to permit the payment to our executive officers of their performance-based cash bonuses at the level of 100% of each of their target 2011 bonus percentages, the at risk compensation of each of Mr. Henry, Mr. Lyle, Mr. Bradford, Mr. Bridges and Mr. Gokhale would have been 85, 73, 67, 68 and 67 percent of their respective total compensation for 2011.

At our 2011 Annual Meeting of Shareholders, our shareholders approved, on an advisory basis, our compensation programs and the compensation of our named executive officers. In light of this support and the continuing success of our compensation programs, the compensation committee made no significant changes to the overall design of our compensation program during 2011, other than the inclusion of RSUs in our annual equity-based awards to our executive officers and the adoption of a deferred compensation plan, which in each case were considered to be consistent with the compensation practices of our 2011 peer group companies. The compensation committee continuously endeavors to ensure that the interests of our executive officers are aligned with those of our shareholders and support the creation of long-term shareholder value.

Changes Made in 2011 to Our Executive Compensation Programs

The total compensation received by our executive officers in 2011 was less than the total compensation received by them in 2010. This decrease was principally the result of no bonuses being paid under our management bonus plan because the Company did not achieve 2011 revenues and non-GAAP

operating income thresholds required for 2011 bonus payouts. Our executive officers received modest increases in their base salaries in 2011 to bring them in line with market benchmarks.

In 2011, we made the following changes to our executive compensation programs:

Inclusion of RSUs in Long-Term Equity Incentives. Beginning in April 2011, all of our executive officers received a combination of RSUs and stock options in their annual equity-based awards. Although we have been granting RSUs to non-officer employees for several years, the decision to include a mix of RSUs and stock options in our annual equity-based awards to executive officers was made by our compensation committee after reviewing data provided by its outside compensation consultant with respect to the compensation practices of our 2011 industry peer group. We expect to continue to grant a mix of RSUs and stock options in connection with our future annual equity-based awards to our executive officers.

Adoption of Deferred Compensation Plan. In May 2011, the compensation committee of our board of directors adopted a non-qualified deferred compensation plan, or NQDC Plan. The NQDC Plan is intended to help build a supplemental source of savings and retirement income through pre-tax deferrals of eligible compensation, which may include cash director fees, base salary, cash bonus awards, RSU awards, discretionary cash awards and/or any other payments designated by the NQDC Plan administrative committee as eligible for deferral under the NQDC Plan from time to time. Unless otherwise determined by the NQDC Plan administrative committee, board members and certain management or highly compensated employees, including our named executive officers, who are notified regarding their eligibility to participate and delivered the NQDC Plan enrollment materials, are eligible to participate in the NQDC Plan. Under the NQDC Plan, plan participants are provided the opportunity to make annual elections to defer a specified percentage or fixed amount of their eligible cash compensation and their eligible RSUs. The Company may also make discretionary contributions to plan participants

Table of Contents

accounts in the future, although it currently does not do so. Any discretionary contributions made by the Company in the future may be subject to vesting arrangements as determined by the Company. The plan participant is always 100% vested in his or her own elective cash deferrals and any earnings thereon. A committee appointed by the compensation committee of our board of directors administers the NQDC Plan. Deferred compensation information for our named executed officers is detailed in the *2011 Nonqualified Deferred Compensation Plan Table*.

How We Make Compensation Decisions

Processes and Procedures

The compensation committee typically meets during the fourth quarter of the year to begin the planning process for the next year's compensation programs, and it meets in both the fourth and first quarter of each year to conduct its annual evaluation of executive officer compensation, determine bonus awards with respect to the prior year's performance, establish new performance objectives and related bonus structures for the current year, and grant new long-term compensation awards in the form of equity incentives. The compensation committee meets at other times during the year as necessary to administer our equity incentive plans and address other compensation-related matters, including matters related to individual compensation, such as compensation for new executive hires, as well as high-level strategic issues, such as the efficacy of our compensation strategy, potential modifications to that strategy, and new trends, plans or approaches to compensation.

The agenda for each meeting is usually developed by the chair of the compensation committee, in consultation with one or more of the following individuals: the president and chief executive officer, the senior vice president of human resources, the general counsel and, if applicable, an independent compensation consultant engaged by the compensation committee. The compensation committee meets regularly in executive session. However, from time to time, the compensation committee may invite various members of our management

team and other employees, as well as outside advisors or consultants, to make presentations, provide financial or other background information or advice, or otherwise participate in meetings. Our president and chief executive officer may not participate in or be present during any deliberations or determinations of the compensation committee regarding his compensation or individual performance objectives. The charter of the compensation committee grants the committee full access to all of our books, records, facilities and personnel, as well as authority to obtain, at our expense, advice and assistance from internal and external legal, accounting or other advisors and consultants and other external resources that the committee considers necessary or appropriate in the performance of its duties. In particular, the compensation committee has the sole authority to retain compensation consultants to assist it in its evaluation of executive and director compensation, including the authority to approve the consultant's reasonable fees and other retention terms.

Generally, the compensation committee's process comprises two related elements: (i) the determination of compensation levels and (ii) the establishment of performance objectives for the current year. For executives other than the president and chief executive officer, the compensation committee solicits and considers evaluations and recommendations submitted to the committee by the president and chief executive officer or the senior vice president of human resources. In the case of the president and chief executive officer, the evaluation of his performance is conducted by the compensation committee, which determines any adjustments to his compensation, including any equity awards to be granted. For all executives, as part of its deliberations, the compensation committee may review and consider, as appropriate, materials such as financial reports and projections, operational data, tax and accounting information, models that set forth the total compensation that may become payable to executives in various hypothetical scenarios, executive and director stock ownership information, Company stock performance data, analyses of historical executive compensation levels and current

Table of Contents

Company-wide compensation levels, and recommendations of the committee's compensation consultant, if any, including analyses of executive compensation paid at other companies identified by the consultant.

As permitted in its charter, the compensation committee has formed and delegated its authority to grant equity awards to non-officer employees to a non-executive stock option subcommittee. This subcommittee is currently composed of two members, one of whom is our president and chief executive officer. The other subcommittee member may be any one of our general counsel, chief financial officer or the senior vice president of human resources. The purpose of this delegation of authority is to enhance the flexibility of option administration within the Company and to facilitate the timely grant of options to non-officer employees, particularly new employees, within specified limits approved by the compensation committee. The subcommittee must follow the Company's existing equity award guidelines when granting options to new hires and may not grant promotional or discretionary option awards to acquire more than an aggregate of 17,500 shares in any 12-month period to any existing non-executive employee. As part of its oversight function, the compensation committee reviews, on a quarterly basis, the list of awards approved by the subcommittee.

Role of the Compensation Consultant

In December 2010, the compensation committee retained the services of the independent executive consulting firm Radford Consulting Services, or Radford, to assist it in setting the Company's 2011 executive compensation strategies. Radford reported directly to the compensation committee. Other than the services performed for the compensation committee and assistance provided to our accounting personnel in calculating stock-based compensation expense, Radford did not provide additional consulting services to the Company, although we do subscribe to Radford's published compensation surveys which are widely used in our industry and are used by our human resources department to help benchmark salaries paid throughout our organization.

The compensation committee requested Radford to:

evaluate the efficacy of our existing executive compensation strategy and practices in supporting and reinforcing our long-term strategic goals;

assist in refining our executive compensation strategy and in developing and implementing executive compensation programs to execute that strategy;

provide market data for compensation arrangements of executives at similar companies in order to benchmark the reasonableness of the Company's compensation; and

make recommendations for compensation to be paid to the Company's executives based on guidelines and other input provided by the compensation committee.

As part of its engagement, the compensation committee requested Radford to develop a comparative group of companies and perform analyses of compensation levels for that group. At the request of the compensation committee, Radford also conducted individual interviews with members of the committee, the president and chief executive officer, the senior vice president of human resources and other members of senior management, as they deemed appropriate, to learn more about our business operations and strategy, key performance metrics and strategic goals, as well as the labor markets in which we compete.

Radford ultimately developed recommendations for our executive compensation that were presented to the compensation committee for its consideration. The compensation committee engaged in an active dialogue with Radford before finally approving the compensation for our executive officers for 2011 as described in detail below.

Benchmarking of Executive Compensation

For 2011, Radford benchmarked our executive compensation using a combination of peer

