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

FORM 10-Q/A

Amendment No. 1

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001.

or

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from __________ to __________.

Commission File Number **0-25236**

M I C R E L, I N C O R P O R A T E D

(Exact name of Registrant as specified in its charter)

California	94-2526744
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

2180 Fortune Drive, San Jose, CA 95131
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (408) 944-0800

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of August 13, 2001 there were 93,189,760 shares of common stock, no par value, outstanding.

EXPLANATORY NOTE

On January 28, 2002, Micrel, Incorporated (the "Company" or "Micrel") announced that it would restate its consolidated financial statements for the years ended December 31, 1998, 1999, and 2000, and the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001. This restatement relates to the Company’s past method of setting the exercise price of certain employee stock options which results in stock compensation expenses and related payroll and income tax effects that had not been recorded in previously issued financial statements. This amendment includes in Item 1 of Part I such restated consolidated financial statements for the three and six month period ended June 30, 2001, and other information in Item 2 of Part I relating to such restated consolidated financial statements. Information regarding the effect of the restatement on the Company's financial position and results of operations is provided in Note 2 of Notes to Condensed Financial Statements included in Item 1 of Part I of this amendment.

Except for items related to the restatement, no other information included in the original Report on Form 10-Q for the quarter ended June 30, 2001, is amended by this amendment.

MICREL, INCORPORATED
INDEX TO
REPORT ON FORM 10-Q/A
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2001

ITEM 1. FINANCIAL STATEMENTS

MICREL, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share amounts)

	June 30, 2001 Restated[2] (Unaudited)	December 31, 2000 [1] Restated[2]
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 124,517	$ 86,137
Short-term investments	16,815	36,953
Accounts receivable, net	29,866	62,843
Inventories	31,965	28,983
Other current assets	1,727	1,565
Deferred income taxes	27,349	24,989
Total current assets	232,239	241,470
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	121,544	112,125
INTANGIBLE ASSETS, NET	4,692	5,775
OTHER ASSETS	493	378
TOTAL	$ 358,968	$ 359,748
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 16,199	$ 21,342
Income taxes payable	4,803	11,805
Deferred income on shipments to distributors	11,839	14,224
Other current liabilities	14,870	15,902
Current portion of long-term debt	4,654	5,429
Total current liabilities	52,365	68,702
LONG-TERM DEBT	3,230	5,327
OTHER LONG-TERM OBLIGATIONS	3,728	3,884
SHAREHOLDERS' EQUITY:		
Preferred stock, no par value - authorized: 5,000,000 shares; issued and outstanding: none	--	--
Common stock, no par value - authorized: 250,000,000 shares; issued and outstanding: 2001 - 92,937,763 shares; 2000 - 90,646,185 shares	185,187	164,713
Deferred stock compensation	(49,727)	(46,020)
Accumulated other comprehensive loss	(22)	(32)
Retained earnings	164,207	163,174
Total shareholders' equity	299,645	281,835
TOTAL	$ 358,968	$ 359,748

(1) Derived from the restated audited balance sheet included in the Annual Report on Form 10-K/A of Micrel, Incorporated for the year ended December 31, 2000.

(2) See Note 2 of Notes to condensed consolidated financial statements regarding restatement of financial statements.

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED

CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30, 2001 Restated(1)	Three Months Ended June 30, 2000 Restated(1)	Six Months Ended June 30, 2001 Restated(1)	Six Months Ended June 30, 2000 Restated(1)
NET REVENUES	$ 50,774	$ 80,239	$ 125,725	$ 149,257
COST OF REVENUES*	31,247	34,999	67,004	65,717
GROSS PROFIT	19,527	45,240	58,721	83,540
OPERATING EXPENSES:				
Research and development	12,396	9,153	25,497	18,869
Selling, general and administrative	7,583	11,113	19,053	21,233
Amortization of deferred stock compensation*	2,226	1,178	4,294	2,133
Non-recurring acquisition expenses*	8,894	--	8,894	--
Total operating expenses	31,099	21,444	57,738	42,235
INCOME(LOSS) FROM OPERATIONS	(11,572)	23,796	983	41,305
OTHER INCOME, NET	1,411	876	3,160	1,547
INCOME(LOSS) BEFORE INCOME TAXES	(10,161)	24,672	4,143	42,852
PROVISION (BENEFIT) FOR INCOME TAXES	(1,522)	8,008	3,110	13,878
NET INCOME(LOSS)	$ (8,639)	$ 16,664	$ 1,033	$ 28,974
NET INCOME(LOSS) PER SHARE:				
Basic	$ (0.09)	$ 0.19	$ 0.01	$ 0.33
Diluted	$ (0.09)	$ 0.17	$ 0.01	$ 0.30
SHARES USED IN COMPUTING PER SHARE AMOUNTS:				
Basic	91,888	88,888	91,412	88,338
Diluted	91,888	97,501	98,188	97,555
* Amortization of deferred stock compensation related to:				
Cost of revenues	$ 782	$ 424	$ 1,511	$ 767
Operating expenses:				
Research and development	$ 1,163	$ 696	$ 2,243	$ 1,257
Selling, general and administrative	1,063	482	2,051	875
Amortization of deferred stock compensation	2,226	1,178	4,294	2,133
Non-recurring acquisition expenses	2,007	--	2,007	--
Total operating expenses	$ 4,233	$ 1,178	$ 6,301	$ 2,133

(1) See Note 2 of Notes to condensed consolidated financial statements regarding the restatement financial statements.

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In thousands)

	Six Months Ended June 30, 2001 Restated[1]	Six Months Ended June 30, 2000 Restated[1]
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 40,039	$ 42,417
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and leasehold improvements	(23,936)	(25,229)
Purchases of short-term investments	(30,537)	(69,088)
Proceeds from sales and maturities of short-term investments	50,685	48,130
Net cash used in investing activities	(3,788)	(46,187)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(2,872)	(2,778)
Proceeds from the issuance of common stock, net	5,001	13,140
Net cash provided by financing activities	2,129	10,362
NET INCREASE IN CASH AND CASH EQUIVALENTS	38,380	6,592
CASH AND CASH EQUIVALENTS - Beginning of period	86,137	20,078
CASH AND CASH EQUIVALENTS - End of period	$ 124,517	$ 26,670
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Cash paid for interest	$ 370	$ 543
Cash paid for income taxes	$ 8,893	$ 12,647
Non-cash transactions:		
Deferred stock compensation	$ 11,519	$ 11,233

(1) See Note 2 of Notes to condensed consolidated financial statements regarding the restatement of financial statements

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. SIGNIFICANT ACCOUNTING POLICIES

Interim Financial Information **-** The accompanying condensed consolidated financial statements of Micrel, Incorporated and its wholly-owned subsidiaries ("Micrel" or the "Company") as of June 30, 2001 and for the three and six months ended June 30, 2001 and 2000 are unaudited. In the opinion of management, the condensed consolidated financial statements include all adjustments (consisting only of normal recurring accruals) that management considers necessary for a fair presentation of its financial position, operating results and cash flows for the interim periods presented. Operating results and cash flows for interim periods are not necessarily indicative of results for the entire year.

This financial data should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's restated Annual Report on Form 10-K/A for the year ended December 31, 2000.

Net Income(loss) per Common and Equivalent Share **-** Basic net income(loss) per share is computed by dividing net income by the number of weighted average common shares outstanding. Diluted net income per share reflects potential dilution from outstanding stock options using the treasury stock method.

Reconciliation of weighted average shares used in computing net income per share is as follows (in thousands):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2001	**2000**	**2001**	**2000**
	Restated(1)	Restated(1)	Restated(1)	Restated(1)
Weighted average common shares outstanding	91,888	88,888	91,412	88,338
Dilutive effect of stock options outstanding using the treasury stock method	--	8,613	6,776	9,217
Shares used in computing diluted net income per share	91,888	97,501	98,188	97,555

(1) See Note 2 of Notes to Consolidated Financial Statements regarding the restatement of financial statements.

2. RESTATEMENT OF FINANCIAL STATEMENTS

On January 28, 2002, the Company announced that it would restate its consolidated financial statements for the years ended December 31, 1998, 1999, and 2000, and the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001. This restatement relates to the Company's past method of setting the exercise price of certain employee stock options which results in stock compensation expenses and related payroll and income tax effects that had not been recorded in previously issued financial statements.

The following table sets forth the adjustments to the statements of operations data resulting from the restatement for the three and six month periods ended June 30, 2001 and 2000. It also sets forth the adjustments to the balance sheet data as of June 30, 2001 and December 31, 2000. For each period, the table begins with the data under the "As Previously Reported" column which sets forth the originally reported data on Form 10-Q. The second column of each period sets forth the data "As Restated" which accounts for the adjustments in compensation expenses and related tax effects referred to in the preceding paragraph. The "As Restated" columns also reflect a reclassification of

MICREL, INCORPORATED
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Kendin stock compensation amounts (totaling $338,000 and $83,000 in the three months ended June 30, 2001 and 2000, respectively and $683,000 and $170,000 in the six months ended June 30, 2001 and 2000, respectively), which were not shown as a separate stock compensation line item in the originally reported data, but were included in the applicable operating expense categories. The only line items included here are those for which there have been adjustments to the originally reported data.

Statements of Operations Data:	**Three Months Ended June 30, 2001**		**Three Months Ended June 30, 2000**	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Cost of revenues	$ 30,437	$ 31,247	$ 34,439	$ 34,999
Research and development	12,488	12,396	8,993	9,153
Selling, general and administrative	7,624	7,583	11,006	11,113
Amortization of deferred stock compensation	—	2,226	—	1,178
Income (loss) from operations	(8,669)	(11,572)	25,801	23,796
Provision (benefit) for income taxes	564	(1,522)	8,806	8,008
Net income (loss)	(7,822)	(8,639)	17,871	16,664
Net income (loss) per share:				
Basic	(0.09)	(0.09)	0.20	0.19
Diluted	(0.09)	(0.09)	0.18	0.17

Statements of Operations Data:	**Six Months Ended June 30, 2001**		**Six Months Ended June 30, 2000**	
	As Previously Reported	As Restated	As Previously Reported	As Restated
Cost of revenues	$ 65,357	$ 67,004	$ 64,637	$ 65,717
Research and development	25,542	25,497	18,513	18,869
Selling, general and administrative	19,166	19,053	20,869	21,233
Amortization of deferred stock compensation	—	4,294	—	2,133
Income (loss) from operations	6,766	983	45,238	41,305
Provision (benefit) for income taxes	6,486	3,110	15,441	13,878
Net income (loss)	3,440	1,033	31,344	28,974
Net income (loss) per share:				
Basic	0.04	0.01	0.35	0.33
Diluted	0.03	0.01	0.32	0.30

Balance Sheet Data:	**As of June 30, 2001**		**As of December 31, 2000**	
	As Previously Reported	As Restated	As Previously Reported	As Restated(1)
Deferred income taxes	$ 25,926	$ 27,349	$ 23,838	$ 24,989
Other current liabilities	11,242	14,870	12,967	15,902
Common stock	129,673	185,187	116,139	164,713
Deferred stock compensation	(4,345)	(49,727)	(4,524)	(46,020)
Retained earnings	175,476	164,207	172,036	163,174

(1) Derived from the restated audited balance sheet included in the Annual Report on Form 10-K/A for the year ended December 31, 2000.

3. ACQUISITION

On May 30, 2001, the Company completed the acquisition of Kendin Communications, Inc. ("Kendin"), a privately held fabless semiconductor company that designs, develops and markets high performance integrated circuits for the communications and networking markets. Under the terms of the merger agreement, the Company issued 6,138,635 shares of common stock and options to purchase 645,097 shares of common stock in exchange for all outstanding Kendin securities and options to purchase Kendin securities. The transaction has been accounted for as a pooling of interests, and accordingly all financial statements presented have been restated to include the Kendin results. Associated with the acquisition the Company recorded $8.9 million in non-recurring acquisition expenses in the quarter ended June 30, 2001. The non-recurring expenses consisted of $6.9 million in transaction costs and $2.0 million in stock compensation charges.

The table below sets forth combined revenues and net income of Micrel and Kendin for the three months ended March 31, 2001 and the three and six months ended June 30, 2000 (in thousands):

	Three Months Ended March 31, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2000
Net revenues:			
Micrel	$ 64,855	$ 75,845	$ 143,158
Kendin	10,096	4,394	6,099
Total	$ 74,951	$ 80,239	$ 149,257
Net income:			
Micrel (Restated, see Note 2)	$ 9,388	$ 16,442	$ 29,513
Kendin	284	222	(539)
Total	$ 9,672	$ 16,664	$ 28,974

4. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2001	December 31, 2000
Finished goods	$ 12,224	$ 9,929
Work in process	17,666	17,040
Raw materials	2,075	2,014
	$ 31,965	$ 28,983

5. BORROWING ARRANGEMENTS

Borrowing agreements consisted of (i) $5 million under a revolving line of credit and (ii) $10 million under a non-revolving line of credit. There were no borrowings under these agreements at June 30, 2001. The two lines of credit are covered by the same loan and security agreement**.** The revolving line of credit portion of the agreement, which has been renewed and amended, expires on June 30, 2002 subject to automatic renewal on a month-to-month basis thereafter unless terminated by either party upon 30 days notice. The non-revolving line of credit portion of the agreement expired on May 31, 2001 and was subsequently renewed and amended through June 30, 2002. Borrowings under the revolving line of credit bear interest rates of, at the Company's election, the prime rate (6.75% at June 30, 2001), or the bank's revolving offshore rate, which approximates LIBOR (4.18% at June 30, 2001) plus 2.0%. Borrowings under the non-revolving line of credit bear interest rates of, at the Company's election, the prime rate, the bank's non-revolving offshore rate, which approximates LIBOR plus 2.13% or a 4 year fixed rate determined by the bank (5.8% at June 30, 2001). The agreement contains certain restrictive covenants that include a restriction on the declaration and payment of dividends without the lender's consent. The Company was in compliance with all such financial covenants at June 30, 2001.

The non-revolving bank line of credit that is covered by the loan agreement described above, can be used to fund purchases of capital equipment whereby the Company may borrow up to 100% of the acquisition cost. Amounts borrowed under this credit line are automatically converted to four-year term notes. All equipment notes are collateralized by the equipment purchased.

6. SIGNIFICANT CUSTOMERS

During the six months ended June 30, 2001, one customer accounted for $14.7 million (11.7%) of net revenues. During the six months ended June 30, 2000, three customers accounted for $18.1 million (12.1%), $17.2 million (11.5%) and $15.4 million (10.3%) of net revenues, respectively.

7. COMPREHENSIVE INCOME (LOSS)

Comprehensive income or loss, which was comprised of the Company's net income or loss for the periods and changes in unrealized gains or losses on investments, was a net loss of $8.6 million and a net income of $1.0 million for the three and six months ended June 30, 2001, respectively, and a net income of $16.7 million and $29.0 million for the three and six months ended June 30, 2000, respectively.

8. SEGMENT REPORTING

The Company operates under two reportable segments, standard products and custom and foundry products.

Net Revenues by Segment
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001	**2000**	**2001**	**2000**
Net Revenues:				
Standard Products	$ 40,779	$ 58,639	$ 103,906	$ 109,045
Custom and Foundry Products	9,995	21,600	21,819	40,212
Total net revenues	$ 50,774	$ 80,239	$ 125,725	$ 149,257
As a Percentage of Total Net Revenues:				
Standard Products	80%	73%	83%	73%
Custom and Foundry Products	20%	27%	17%	27%
Total net revenues	100%	100%	100%	100%

9. RECENTLY ISSUED ACCOUNTING STANDARDS

Statement of Financial Accounting Standards ("SFAS") No. 133, "Accounting for Derivative Instruments and Hedging Activities", is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Company has adopted SFAS 133 effective January 1, 2001. Management has concluded that the adoption of SFAS 133 had no material effect on the financial position, results of operations, or cash flows of the Company.

On June 29, 2001, Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations" was approved by the Financial Accounting Standards Board (FASB). SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Goodwill and certain intangible assets will remain on the balance sheet. On an annual basis, and when there is reason to suspect that their values have been diminished or impaired, these assets must be tested for impairment, and write-downs may be necessary. The Company is required to implement SFAS No. 141 on July 1, 2001 and it has not determined the impact, if any, that this statement will have on financial condition, results of operations or cash flows.

On June 29, 2001, SFAS No. 142, "Goodwill and Other Intangible Assets" was approved by the FASB. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. Amortization of goodwill, including goodwill recorded in past business combinations, will cease upon adoption of this statement. The Company is required to implement SFAS No. 142 on January 1, 2002 and it has not determined the impact, if any, that this statement will have on financial condition, results of operations or cash flows.

10. CONTINGENCIES

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. To the extent that the Company becomes involved in such intellectual property litigation, it could result in substantial costs and diversion of resources to the Company and could have a material adverse effect on the Company's financial condition or results of operations.

On July 2, 1999, National Semiconductor Corporation ("National"), a competitor of the Company, filed a complaint against the Company, entitled National Semiconductor Corporation v. Micrel Semiconductor, Inc. in the United States District Court, Northern District of California, in San Jose, California, alleging that the Company infringes five National Semiconductor patents. The complaint in the lawsuit seeks unspecified compensatory damages for infringement, and treble damages as well as permanent injunctive relief against further infringement of the National patents at issue. The Company intends to continue defending itself against these claims. The litigation is currently in the discovery phase. A trial date has not yet been set by the Court.

On February 26, 1999, the Lemelson Medical, Education & Research Foundation (the “Lemelson Partnership”) filed a complaint which was served on the Company on June 15, 1999, entitled Lemelson Medical, Education & Research Foundation, Limited Partnership v. Lucent Technologies Inc., et al. in the United States District Court in Phoenix, Arizona, against eighty-eight defendants, including the Company, alleging infringement of Lemelson Foundation patents. The complaint in the lawsuit seeks unspecified compensatory damages, treble damages and attorneys' fees, as well as injunctive relief against further infringement of the Lemelson patents at issue. The Company intends to continue to defend itself against these claims. The case is currently in the discovery phase and no trial date has been set.

On May 9, 1994, Linear Technology Corporation (“Linear” or “LTC”), a competitor of the Company, filed a complaint against the Company, entitled Linear Technology Corporation v. Micrel, Incorporated, in the United States District Court in San Jose, California, alleging patent and copyright infringement and unfair competition. All claims, except the patent infringement claim, have been settled or dismissed. In this lawsuit, Linear claimed that two of the Company's products infringed one of Linear's patents. The complaint in the lawsuit sought unspecified compensatory damages, treble damages and attorneys' fees as well as preliminary and permanent injunctive relief against infringement of the Linear patent at issue. On August 20, 1999, the United States District Court in San Jose adjudicated in favor of the Company in this patent infringement suit brought by the plaintiff. The plaintiff alleged in the suit that the Company had infringed upon U.S. Patent No. 4,755,741, which covers design techniques used to increase the efficiency of switching regulators. The United States District Court in San Jose found the patent to be invalid under the “on sale bar” defense as the plaintiff had placed integrated circuits containing the alleged invention on sale more than a year before filing its patent application. The United States District Court in San Jose dismissed the plaintiff’s complaint on the merits of the case and awarded the Company its legal costs. A notice of appeal of the Judgment was filed by Linear on September 17, 1999. Linear filed its appeal brief with the United States Court of Appeal for the Federal Circuit ("CAFC") in October, 2000. The Company filed its responsive brief with the CAFC in January, 2001. The parties are awaiting judgement on appeal.

On June 16, 1999, Paul Boon (“Boon” or “plaintiff”), an ex-employee of the Company, filed a complaint in the Superior Court of California entitled Paul Boon v. Micrel Incorporated, dba Micrel Semiconductor, alleging breach of employment contract, discrimination based upon age, and wrongful termination in violation of public policy. On October 12, 2000, Boon filed an amended complaint alleging breach of an implied covenant of good faith and fair dealing, and breach of written agreement, in addition to the original causes of action. On February 23, 2001, a jury decided that the Company had breached an employment contract with plaintiff and awarded plaintiff $1.3 million. On April 13, 2001, the Company filed a motion for judgement notwithstanding the verdict or alternatively, a motion for new trial. On May 18, 2001, the Court granted the Company's motion, issuing an order which vacated and set aside the judgement in favor of Boon, and ordered a new trial on all issues. A new trial date was set for July 16, 2001. Prior to the beginning of trial, the parties settled the matter. On July 27, 2001, the case was dismissed by the Court.

The Company believes that the ultimate outcome of the legal actions discussed above will not result in a material adverse effect on the Company's financial condition, results of operation or cash flows. However, litigation is subject to inherent uncertainties, and no assurance can be given that the Company will prevail in these lawsuits. Accordingly, the pending lawsuits as well as potential future litigation with other companies, could result in substantial costs and diversion of resources and could have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

Certain additional claims and lawsuits have arisen against the Company in its normal course of business. The Company believes that these claims and lawsuits will not have a material adverse effect on the Company's financial condition, results of operation or cash flows.

In the event of an adverse ruling in any intellectual property litigation that now exists or might arise in the future, the Company might be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to the infringing technology. There can be no assurance, however, that under such circumstances, a license would be available under reasonable terms or at all. In the event of a successful claim against the Company and the Company's failure to develop or license substitute technology on commercially reasonable terms, the Company's financial condition, results of operations, or cash flows could be adversely affected.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Restatement of Financial Statements

On January 28, 2002, Micrel announced that it would restate its consolidated financial statements for the years ended December 31, 1998, 1999, and 2000, and the quarters ended March 31, 2001, June 30, 2001, and September 30, 2001. This restatement relates to the Company’s past method of setting the exercise price of certain employee stock options which results in stock compensation expenses and related payroll and income tax effects that had not been recorded in previously issued financial statements. It should be noted that Micrel sought outside professional advice prior to implementation of the option grant method that resulted in the unintentional consequence of stock compensation charges. Information regarding the effect of the restatement on the Company's financial position and results of operations is provided in Note 2 of Notes to Condensed Financial Statements included in Item 1 of Part I of this amendment. The following discussion is based on the restated financial information.

Overview

Micrel designs, develops, manufactures and markets a range of high performance standard analog, high-speed mixed-signal and digital integrated circuits. These circuits are used in a wide variety of electronics products, including those in the high bandwidth communications, computer, telecommunications and industrial markets. In addition to standard products, the Company manufactures custom analog and mixed-signal circuits and provides wafer foundry services.

The Company derives a substantial portion of its net revenues from standard products. Standard products sales represented 80% and 83% of net revenues for the three and six months ended June 30, 2001, respectively, as compared to 73% for the similar periods in the prior year. The Company believes that a substantial portion of its net revenues in the future will depend upon standard products sales, although such sales as a proportion of net revenues may vary as the Company adjusts product output levels to correspond with varying economic conditions and demand levels in the markets which it serves. The standard products business is characterized by short-term orders and shipment schedules, and customer orders typically can be canceled or rescheduled without significant penalty to the customer. Since most standard products backlog is cancelable without significant penalty, the Company typically plans its production and inventory levels based on internal forecasts of customer demand, which is highly unpredictable and can fluctuate substantially. In addition, the Company is limited in its ability to reduce costs quickly in response to any revenue shortfalls.

The Company may experience significant fluctuations in its results of operations. Factors that affect the Company's results of operations include the volume and timing of orders received, changes in the mix of products sold, the utilization level of manufacturing capacity, competitive pricing pressures and the successful development of new products. These and other factors are described in further detail later in this discussion. As a result of the foregoing or other factors, there can be no assurance that the Company will not experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect the Company's business, financial condition, results of operations or cash flows.

Acquisition of Kendin Communications Inc.

On May 30, 2001, the Company completed the acquisition of Kendin Communications Inc., a fabless semiconductor company that designs, develops and markets high performance integrated circuits for the communications and networking markets. In connection with the acquisition, the Company issued 6,138,635 shares of its common stock and options to purchase 645,097 shares of common stock in exchange for all the outstanding Kendin securities and options to purchase securities. The transaction has been accounted for as a pooling of interests. Associated with the acquisition, the Company recorded $8.9 million in non-recurring acquisition expenses in the quarter ended June 30, 2001. These non-recurring expenses consisted of $6.9 million in transaction costs and $2.0 million in stock compensation charges.

For reference purposes, the following tables present historical financials for Micrel restated to include Kendin Communications, Inc. using the pooling of interest accounting method.

SUPPLEMENTAL FINANCIAL DATA
MICREL, INCORPORATED
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
RESTATED TO INCLUDE KENDIN COMMUNICATIONS, INC.
ACCOUNTED FOR AS A POOLING-OF-INTERESTS
(In thousands, except per share amounts)
(Unaudited)

	Total 1999 Restated(1)	1st Qtr. 2000 Restated(1	2nd Qtr. 2000 Restated(1)	3rd Qtr. 2000 Restated(1)	4th Qtr. 2000 Restated(1)	Total 2000 Restated(1)	1st Qtr. 2001 Restated(1)
Net revenues	$200,016	$ 69,018	$ 80,239	$ 94,682	$102,396	$346,335	$ 74,951
Cost of revenues*	89,572	30,718	34,999	39,986	43,380	149,083	35,757
Gross profit	110,444	38,300	45,240	54,696	59,016	197,252	39,194
Operating expense							
Research and development	29,563	9,716	9,153	11,175	12,157	42,201	13,101
Selling, general and administrative	29,399	10,120	11,113	11,846	12,240	45,319	11,470
Amortization of deferred stock compensation*	2,109	955	1,178	1,742	2,185	6,060	2,068
Purchased in-process technology	603	--	--	--	--	--	--
Total operating expenses	61,674	20,791	21,444	24,763	26,582	93,580	26,639
Income from operations	48,770	17,509	23,796	29,933	32,434	103,672	12,555
Other income, net	692	671	876	1,465	1,727	4,739	1,749
Income before income taxes	49,462	18,180	24,672	31,398	34,161	108,411	14,304
Provision for income taxes	16,019	5,870	8,008	10,147	11,079	35,104	4,632
Net income	$ 33,443	$ 12,310	$ 16,664	$ 21,251	$ 23,082	$ 73,307	$ 9,672
Net income per share:							
Basic	$ 0.39	$ 0.14	$ 0.19	$ 0.24	$ 0.26	$ 0.82	$ 0.11
Diluted	$ 0.36	$ 0.13	$ 0.17	$ 0.21	$ 0.23	$ 0.75	$ 0.10
Shares used in computing per share amounts:							
Basic	85,762	87,788	88,888	89,811	90,479	89,242	90,936
Diluted	92,906	97,292	97,501	99,378	98,646	98,152	98,704
*Amortization of deferred stock compensation related to:							
Cost of revenues	$ 926	$ 343	$ 424	$ 654	$ 781	$ 2,202	$ 729
Research and development	$ 1,444	$ 562	$ 696	$ 966	$ 1,123	$ 3,347	$ 1,080
Selling, general and administrative	665	393	482	776	1,062	2,713	988
	$ 2,109	$ 955	$ 1,178	$ 1,742	$ 2,185	$ 6,060	$ 2,068

(1) See Note 2 of Notes to condensed consolidated financial statements regarding the restatement of financial statements

SUPPLEMENTAL FINANCIAL DATA
MICREL, INCORPORATED
CONDENSED CONSOLIDATED BALANCE SHEETS
RESTATED TO INCLUDE KENDIN COMMUNICATIONS, INC.
ACCOUNTED FOR AS A POOLING-OF-INTERESTS
(In thousands)
(Unaudited)

	Dec. 31, 1999 Restated[1]	Mar. 31, 2000 Restated[1]	June 30, 2000 Restated[1]	Sep. 30, 2000 Restated[1]	Dec. 31, 2000 Restated[1]	Mar. 31, 2001 Restated[1]
ASSETS						
CURRENT ASSETS:						
Cash, cash equivalents and short-term investments	$ 56,722	$ 63,649	$ 84,283	$ 102,491	$ 123,090	$ 137,737
Accounts receivable, net	40,113	45,249	51,870	60,443	62,843	54,240
Inventories	24,278	22,666	23,141	23,750	28,983	28,622
Deferred income taxes	15,608	17,095	17,900	21,654	24,989	25,640
Other current assets	1,173	1,839	1,531	1,717	1,565	2,422
Total current assets	137,894	150,498	178,725	210,055	241,470	248,661
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	67,784	73,537	81,993	91,999	112,125	118,484
INTANGIBLE ASSETS, NET	7,933	7,399	6,858	6,316	5,775	5,233
OTHER ASSETS	560	544	414	384	378	419
TOTAL	$ 214,171	$ 231,978	$ 267,990	$ 308,754	$ 359,748	$ 372,797
LIABILITIES AND SHAREHOLDERS' EQUITY						
CURRENT LIABILITIES	$ 46,265	$ 44,319	$ 53,195	$ 50,938	$ 68,702	$ 66,156
LONG-TERM OBLIGATIONS	10,648	8,990	7,896	6,607	9,211	8,213
SHAREHOLDERS' EQUITY:						
Common stock	86,051	99,365	114,435	156,768	164,713	170,085
Deferred stock compensation	(18,043)	(22,218)	(26,377)	(45,632)	(46,020)	(44,478)
Accumulated other comprehensive income (loss)	15	(23)	--	(19)	(32)	(25)
Retained earnings	89,235	101,545	118,841	140,092	163,174	172,846
TOTAL SHAREHOLDERS' EQUITY	157,258	178,669	206,899	251,209	281,835	298,428
TOTAL	$ 214,171	$ 231,978	$ 267,990	$ 308,754	$ 359,748	$ 372,797

(1) See Note 2 of Notes to condensed consolidated financial statements regarding the restatement of financial statements

Results of Operations

The following table sets forth certain operating data as a percentage of total net revenues for the periods indicated:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2001 Restated(1)	2000 Restated(1)	2001 Restated(1)	2000 Restated(1)
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	61.5	43.6	53.3	44.0
Gross profit	38.5	56.4	46.7	56.0
Operating expenses:				
Research and development	24.4	11.4	20.3	12.7
Selling, general and administrative	14.9	13.8	15.1	14.2
Amortization of deferred stock compensation	4.4	1.5	3.4	1.4
Non-recurring acquisition expenses	17.6	-	7.1	-
Total operating expenses	61.3	26.7	45.9	28.3
Income(loss) from operations	(22.8)	29.7	0.8	27.7
Other income, net	2.8	1.1	2.5	1.0
Income(loss) before income taxes	(20.0)	30.8	3.3	28.7
Provision (benefit) for income taxes	(3.0)	10.0	2.5	9.3
Net income(loss)	(17.0)%	20.8%	0.8%	19.4%

(1) See Note 2 of Notes to Condensed Consolidated Financial Statements regarding the restatement of financial statements.

Net Revenues. Net revenues decreased 37% to $50.8 million for the quarter ended June 30, 2001 from $80.2 million for the same period in 2000. For the six months ended June 30, 2001, net revenues decreased 16% to $125.7 million from $149.3 million for the same period in 2000. The Company derives a substantial portion of its net revenues from standard products. Standard products sales represented 80% and 83% of net revenues for the three and six months ended June 30, 2001, respectively, as compared to 73% for the similar periods in the prior year. On a dollar basis, standard products revenues decreased 31% to $40.8 million for the three months ended June 30, 2001 from $58.6 million for same period in 2000. For the six months ended June 30, 2001, standard products revenues decreased 5% to $103.9 million from $109.0 million for the same period in 2000. Such decreases resulted from decreased unit shipments across all product lines and end markets except ethernet communications, combined with decreases in average selling prices. Custom and foundry products revenues decreased 54% to $10.0 million representing 20% of net revenues for the three months ended June 30, 2001 from $21.6 million or 27% of net revenues for the comparable period in 2000. For the six months ended June 30, 2001, custom and foundry products revenues decreased 46% to $21.8 million representing 17% of net revenues from $40.2 million or 27% of net revenues for the comparable period in 2000. Such decreases were due primarily to decreased unit shipments of custom high speed communications products.

Increasing overall end customer demand during the first half of 2000 resulted in capacity constraints and increasing order lead times for semiconductor suppliers. Longer lead times and concern about availability of semiconductor components resulted in increased order rates for standard products during the first three quarters of 2000, resulting in increased order backlog. Orders from OEM customers and contract manufacturers serving the high speed communications market were especially strong in the first nine months of 2000 as these customers attempted to secure semiconductor components to meet their projected end demand. However, the supply of semiconductors can quickly and unexpectedly match or exceed demand because customer end demand can change very quickly, and semiconductor suppliers can rapidly increase production output. This can lead to a sudden oversupply situation and a subsequent reduction in order rates as customers adjust their inventories to true demand rates. Customers continuously adjust their inventories resulting in frequent changes in demand for the Company’s products.

The semiconductor industry experienced such a change in the supply and demand situation during 2000 and the first six months of 2001. In the fourth quarter of 2000 and the first six months of 2001, customers in the high speed communications end market, and the contract manufacturing firms that serve this market, adjusted their demand on component suppliers as they coped with high levels of inventory and sharply reduced demand for their end products. In addition, the slowing of global economic growth during the first six months of 2001 led to lower order rates from customers serving the telecommunications, industrial and computer end markets as they adjusted to lower demand for their products. The rapid build up of semiconductor inventories in global sales channels caused lead times for components to fall significantly during the first half of 2001. Due to the combination of excess supply, reduced demand and lower lead times, new orders rates declined and a significant amount of previously placed orders were cancelled during the first half of 2001. The corresponding reduction in backlog has left Micrel, like most semiconductor suppliers, with extremely limited visibility into future customer demand. Customers appear to be placing orders on an “as needed” basis due to short supplier lead times combined with the uncertain macroeconomic outlook. The low backlog and uncertainty of customer demand significantly limits the Company’s ability to predict future levels of sales and profitability.

International sales represented 61% and 42% of net revenues for the quarters ended June 30, 2001 and 2000, respectively. On a dollar basis, international sales decreased 8% to $31.0 million for the quarter ended June 30, 2001 from $33.7 million for the comparable period in 2000. The dollar basis decrease in international sales resulted from decreased shipments to manufacturers of personal computers and communications products primarily in Europe. For the six months ended June 30, 2001 and 2000, international sales represented 55% and 42% of net revenues, respectively. On a dollar basis, international sales increased 8% to $68.8 million for the six months ended June 30, 2001 from $63.4 million for the comparable period in 2000. The dollar basis increase in international sales resulted from increased shipments to manufacturers of ethernet communications products primarily in Asia.

The Company's international sales are denominated in U.S. currency. Consequently, changes in exchange rates that strengthen the U.S. dollar could increase the price in local currencies of the Company's products in foreign markets and make the Company's products relatively more expensive than competitors' products that are denominated in local currencies, leading to a reduction in sales or profitability in those foreign markets. The Company has not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments with respect to such fluctuations.

The Company defers recognition of revenue derived from sales to domestic, Canadian, and certain other international distributors until such distributors resell the Company's products to their customers. Sales to stocking representatives and O.E.M. customers are recognized upon shipment. The Company estimates returns and warranty costs and provides an allowance as revenue is recognized.

Gross Profit. Gross profit is affected by a variety of factors including the volume of product sales, manufacturing utilization, product mix, product yields and average selling prices. The Company's gross margin decreased to 39% for the three months ended June 30, 2001 from 56% for the comparable period in the prior year. For the six months ended June 30, 2001, gross margin decreased to 47% from 56% for the comparable period in the prior year. The decrease in gross margin primarily reflected decreased capacity utilization, a reduced mix of higher margin standard products and custom products and a decrease in average selling prices compared to the same periods in 2000.

Manufacturing yields, which affect gross margin, may from time to time decline because the fabrication of integrated circuits is a highly complex and precise process. Factors such as minute impurities and difficulties in the fabrication process can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be nonfunctional. There can be no assurance that the Company in general will be able to maintain acceptable manufacturing yields in the future.

Research and Development Expenses. Research and development expenses include costs associated with the development of new processes and the definition, design and development of new products. The Company also expenses prototype wafers and new production mask sets related to new products as research and development costs until products based on new designs are fully characterized by the Company and are demonstrated to support published data sheets and satisfy reliability tests.

As a percentage of net revenues, research and development expenses represented 24% and 11% for the three months ended June 30, 2001 and 2000, respectively. On a dollar basis, research and development expenses increased $3.2 million or 35% to $12.4 million for the three months ended June 30, 2001 from $9.2 million for the comparable period in 2000. For the six months ended June 30, 2001 and 2000, research and development expenses represented 20% and 13% of net revenues, respectively. On a dollar basis, research and development expenses increased $6.6 million or 35% to $25.5 million for the six months ended June 30, 2001 from $18.9 million for the comparable period in 2000. The dollar increase was primarily due to increased engineering staffing costs and increased prototype fabrication costs and new process development costs. The Company believes that the development and introduction of new products is critical to its future success and expects to continue its investment in research and development activities in the future.

Selling, General and Administrative Expenses. As a percentage of net revenues, selling, general and administrative expenses represented 15% and 14% for the three months ended June 30, 2001 and 2000, respectively. On a dollar basis, selling, general and administrative expenses decreased $3.5 million or 32% to $7.6 million for the three months ended June 30, 2001 from $11.1 million for the comparable period in 2000. The dollar decrease was principally attributable to decreased sales commissions costs and decreased legal expenses. For the six months ended June 30, 2001 and 2000, selling, general and administrative expenses represented 15% and 14% of net revenues, respectively. On a dollar basis, selling, general and administrative expenses decreased $2.2 million or 10% to $19.1 million for the six months ended June 30, 2001 from $21.2 million for the comparable period in 2000. The dollar decrease was principally attributable to decreased sales commissions costs.

Amortization of deferred stock compensation. The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees". For the quarter ended June 30, 2001 total amortization of deferred stock compensation was $5.0 million of which $782,000 was included in cost of revenues, $2.2 million was included in amortization of deferred stock compensation and $2.0 million was included in non-recurring acquisition expenses. For the quarter ended June 30, 2000 total amortization of deferred stock compensation was $1.6 million of which $424,000 was included in cost of revenues and $1.2 million was included in amortization of deferred stock compensation. For the six months ended June 30 2001 total amortization of deferred stock compensation was $7.8 million of which $1.5 million was included in cost of revenues, $4.3 million was included in amortization of deferred stock compensation and $2.0 million was included in non-recurring acquisition expenses. For the six months ended June 30, 2000 total amortization of deferred stock compensation was $2.9 million of which $767,000 was included in cost of revenues and $2.1 million was included in amortization of deferred stock compensation.

Non-recurring acquisition expenses. Non-recurring acquisition expenses reflect $6.9 million in direct transaction costs and $2.0 million in stock compensation costs related to the acquisition of Kendin Communications.

Other Income, Net. Other income, net reflects interest income from investments in short-term investment grade securities offset by interest expense incurred on term notes. Other income, net increased $535,000 to $1.4 million for the three months ended June 30, 2001 from $876,000 for the comparable period in 2000. For the six months ended June 30, 2001, other income, net increased $1.6 million to $3.2 million from $1.5 million for the comparable period in 2000. The increase was primarily due to an increase in average cash and investment balances combined with a reduction in average term note balances.

Provision for Income Taxes. For the three and six months ended June 30, 2001, the provision for income taxes was a benefit of $1.5 million and an expense of $3.1 million, respectively. The income tax amounts reflect the Company's revised year 2001 estimated annual effective tax rate of 75% of income before tax. During the quarter ended June 30, 2001 the Company's 2001 estimated annual effective tax rate was revised to 70% from 32% of income before tax, primarily due to the impact of $6.9 million in non-recurring acquisition expenses which have been accounted for as non-deductible expenses for federal income tax purposes. For the three and six months ended June 30, 2000, the provision for income taxes was 32%.

Liquidity and Capital Resources

Since inception, the Company's principal sources of funding have been its cash from operations, bank borrowings and sales of common stock. Principal sources of liquidity at June 30, 2001 consisted of cash and short-term investments of $141 million and bank borrowing arrangements. Borrowing agreements consisted of (i) $5 million under a revolving line of credit and (ii) $10 million under a non-revolving line of credit. There were no borrowings under these agreements at June 30, 2001. The two lines of credit are covered by the same loan and security agreement. The revolving line of credit portion of the agreement, which has been renewed and amended, expires on June 30, 2002 subject to automatic renewal on a month-to-month basis thereafter unless terminated by either party upon 30 days notice. The non-revolving line of credit portion of the agreement expired on May 31, 2001 and was subsequently renewed and amended through June 30, 2002. The agreement contains certain restrictive covenants that include a restriction on the declaration and payment of dividends without the lender’s consent. The Company was in compliance with all such financial covenants at June 30, 2001.

The non-revolving bank line of credit that is covered by the loan agreement described above can be used to fund purchases of capital equipment whereby the Company may borrow up to 100% of the acquisition cost. Amounts borrowed under this credit line are automatically converted to four-year installment notes. All equipment notes are collateralized by the equipment purchased.

As of June 30, 2001, the Company had $7.9 million outstanding under term notes that are collateralized by the Company's manufacturing equipment.

The Company's working capital increased by $7.1 million to $179.9 million as of June 30, 2001 from $172.8 million as of December 31, 2000. The increase was primarily attributable to a $18.2 million increase in cash, cash equivalents and short-term investments, and a $3.0 million increase in inventories, combined with a $16.3 million decrease in current liabilities, which were partially offset by a $33.0 million decrease in accounts receivable.

The Company's cash flows from operating activities was $40.0 million for the six months ended June 30, 2001 compared to $42.4 million for the same period in the prior year. The cash flows from operating activities generated by the Company in the six months ended June 30, 2001 were primarily attributable to net income of $21.9 million after adding back non-cash activities combined with a decrease in accounts receivable of $33.0 million, which were partially offset by decreases in accounts payable of $5.1 million and accrued compensation of $3.0 million combined with an increase in inventories of $3.0 million.

The Company’s investing activities during the six months ended June 30, 2001 used cash of $3.8 million as compared to $46.2 million of cash used for investing activities during the comparable period in the prior year. Cash used by investing activities during the six months ended June 30, 2001 resulted from net purchases of property, plant and equipment of $23.9 million primarily for wafer fab and testing equipment and leasehold improvements which was partially offset by cash provided from net sales of short-term investments of $20.1 million.

The Company's financing activities during the six months ended June 30, 2001 provided cash of $2.1 million as compared to cash provided of $10.4 million during the comparable period in the prior year. Cash provided by financing activities during the six months ended June 30, 2001 was the result of $5.0 million in proceeds from the issuance of common stock through the exercise of employee stock options, which was partially offset by $2.9 million in repayments of long-term debt.

The Company currently intends to reduce its capital equipment purchases from the year 2000 levels by 30% to 40% to approximately $35 million to $45 million during 2001. The Company expects to purchase primarily additional wafer and test manufacturing equipment and leasehold improvements. The Company expects that its cash requirements through 2001 will be met by its cash from operations, existing cash balances and short-term investments, and its credit facilities.

Factors That May Affect Operating Results

All statements contained in this Report on Form 10-Q/A that are not purely historical are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, including statements regarding the Company’s expectations, hopes, intentions, beliefs or strategies regarding the future. Forward-looking statements in this Report on Form 10-Q/A include, without limitation statements regarding: the Company's beliefs regarding the effect of standard product sales on net revenues; the Company's plans for production and inventory levels; the Company's future products or product developments; fluctuations in the Company's results of operations; low visibility into future customer demand and oversupply situations; future research and development spending and the Company’s product development strategy; levels of international sales; future expansion or utilization of manufacturing capacity; future expenditures; the composition of the Company’s net revenues; fluctuations in results of operations; semiconductor supply and demand; declines in manufacturing yields; the Company’s intentions and expectations regarding capital equipment purchases and cash requirements; the defense and outcome of present and future litigation claims; current or future acquisitions. All forward-looking statements included in this document are based on information available to the Company on the date hereof, and the Company assumes no obligation to update any such forward-looking statements. It is important to note that the Company’s actual results could differ materially from those in such forward-looking statements. Some of the factors that could cause actual results to differ materially from the results set forth in or implied by such forward looking statements are set forth below. Additional factors that may affect these forward looking statements and the Company’s operating results are contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

We are exposed to the risks because of the recent slowdown in the global economy.

Recently the global economy has been experiencing a slowdown due to many factors, including decreased consumer confidence and concerns about inflation, and reduced corporate profits and capital spending. As a result of these unfavorable economic conditions, we have experienced lower new customer order rates and a significant amount of previously placed orders were cancelled during the first half of 2001. If these economic conditions in the U.S. continue or worsen or if a wider or global economic slowdown occurs, our business, financial condition and results of operations may be materially and adversely affected.

Our operating results may fluctuate because of a number of factors, many of which are beyond our control.

If our operating results are below the expectations of public market analysts or investors, then the market price of our common stock could decline. Some of the factors that affect our quarterly and annual results, but which are difficult to control or predict are:

- the volume and timing of orders received
- changes in the mix of products sold
- market acceptance of our products and our customers' products
- competitive pricing pressures
- our ability to introduce new products on a timely basis
- the timing of new product announcements and introductions by us or our competitors
- the timing and extent of research and development expenses
- fluctuations in manufacturing yields
- cyclical semiconductor industry conditions

- our ability to hire and retain key technical and management personnel
- our access to advanced process technologies
- the timing and extent of process development costs
- the current California energy crisis

Customer demand for our products is volatile and difficult to predict.

Our customers continuously adjust their inventories resulting in frequent changes in demand for our products. The volatility of customer demand limits our ability to predict future levels of sales and profitability. The supply of semiconductors can quickly and unexpectedly match or exceed demand because customer end demand can change very quickly. Also, semiconductor suppliers can rapidly increase production output. This can lead to a sudden oversupply situation and a subsequent reduction in order rates and revenues as customers adjust their inventories to true demand rates.

The current weakness in the global economy has caused the end markets that our customers serve to grow less rapidly, or in some cases contract. The resulting uncertainty of demand has caused most of our customers to error on the side of caution until they see signs of order strength for their end products. In addition, many customers are continuing to deplete excess inventories, particularly contract manufacturers and high bandwidth communication OEM’s. Semiconductors are perceived to be readily available and supplier lead times are at or near record lows. In this environment customers are not making large purchase commitments, only ordering small quantities to fill known short-term requirements, greatly reducing our visibility into customer demand.

Sales of our products are highly dependent on certain select end markets.

We currently sell a significant portion of our products in the high speed communications, computer and wireless handset markets. These markets are characterized by short product life cycles, rapidly changing customer demand, evolving and competing industry standards and seasonal demand trends. Additionally, there can be no assurance that these markets will continue to grow. If the markets for high speed communications, computers or wireless handsets that we serve fail to grow, or grow more slowly than we currently anticipate, or if we experience increased competition in these markets, our business, results of operations and financial condition will be adversely affected.

Our gross margin is dependent upon a number of factors, among them our level of capacity utilization.

Semiconductor manufacturing is a capital intensive business resulting in high fixed costs. If we are unable to utilize our installed wafer fabrication or test capacity at a high level, the costs associated with these facilities and equipment is not fully absorbed, resulting in higher average unit costs and lower sales margins.

Our industry is highly competitive.

The semiconductor industry is highly competitive and subject to rapid technological change, price-erosion and increased international competition. Significant competitive factors include:

- product features
- performance
- price
- timing of product introductions
- emergence of new computer and communications standards
- quality and customer support

Because the standard products market for integrated circuits is diverse and highly fragmented, we encounter different competitors in our various market areas. Most of these competitors have substantially greater technical, financial and marketing resources and greater name recognition than we do. Due to the increasing demands for integrated circuits, we expect intensified competition from existing integrated circuit suppliers and the entry of new competition. Increased competition could adversely affect our financial condition or results of operations. There can be no assurance that we will be able to compete successfully in either the standard products or custom and foundry products business in the future or that competitive pressures will not adversely affect our financial condition, results of operations, or cash flows.

Our product offering is concentrated and a reduction in demand for one of our significant products could reduce our revenues and results of operations.

We currently derive the majority of our product revenues from sales of standard analog and mixed-signal integrated circuits and we expect these products to continue to account for the majority of our revenues for the foreseeable future. As a result, factors adversely affecting the pricing of or demand for standard analog integrated and mixed-signal circuits, such as competition, product performance or technological change, could have a material adverse effect on our business and consolidated results of operations and financial condition.

We face risks associated with acquisitions we have completed and will face risks associated with any future acquisitions.

We have made four strategic acquisitions in the past two years: Synergy Semiconductor in November 1998, Altos Semiconductor Inc. in December 1999, Electronic Technology Corporation in April 2000, and most recently Kendin Communications Inc. in May 2001

On May 30, 2001, the Company completed the acquisition of Kendin Communications Inc., a fabless semiconductor company that designs, develops and markets high performance integrated circuits for the communications and networking markets. The integration of Kendin will place a burden on our management team and infrastructure. There can be no assurances that Kendin will be effectively assimilated into our business.

The risks involved with acquisitions include:

- diversion of management's attention
- difficulties associated with assimilating and integrating the personnel, operations and technologies of the acquired company.
- failure to retain key personnel
- amortization of acquired intangible assets
- loss of key customers, customer dissatisfaction or performance problems with the acquired company
- the cost associated with acquisitions and the integration of acquired operations
- assumption of unknown liabilities

There can be no assurance that we will be successful in overcoming these risks or any other problems associated with our acquisition of Kendin or with any of our other acquisitions. Any of these risks could materially harm our business, financial condition and results of operations. Additionally, there can be no assurance that any of the companies that we acquired or any business that we may acquire in the future will achieve anticipated revenues and operating results.

In addition, acquisitions accounted for using the pooling of interests methods of accounting are subject to rules established by the Financial Accounting Standards Board and the Securities and Exchange Commission. These rules are complex and the interpretation of them is subject to change. Additionally, the availability of pooling of interests accounting treatment for a business combination depends in part upon circumstances and events occurring after the acquisition. The failure of a past business combination or a future potential business combination that has been accounted for under the pooling of interests accounting method to qualify for this accounting treatment would materially harm our reported and future earnings and likely, the price of our common stock. Recently, the Financial Accounting Standards Board has eliminated pooling of interests accounting for all business combinations initiated after June 30, 2001. In addition recent pronouncements have limited the ability of companies to write-off in-process research and development. The effect of these changes is to increase the portion of the purchase price for any future acquisitions that must be charged to our costs of revenues and operating expenses in the periods following any such acquisitions. As a result, our results of operations in the periods following any future acquisitions could be adversely affected. To that extent, these changes may make it more difficult for us to acquire other companies, product lines or technologies in the future.

An important part of our strategy is to continue our focus on the market for high-speed communications integrated circuits, or ICs. If we are unable to penetrate this market further, our revenues could stop growing and may decline.

Our markets frequently undergo transitions in which products rapidly incorporate new features and performance standards on an industry-wide basis. If our products are unable to support the new features or performance levels required by OEMs in these markets, we would likely lose business from existing or potential customers and would not have the opportunity to compete for new design wins until the next product transition. If we fail to develop products with required features or performance standards, or if we experience even a short delay in bringing a new product to market, or if our customers fail to achieve market acceptance of their products, our revenues could be significantly reduced for a substantial period of time.

A significant portion of our revenues in recent periods has been, and is expected to continue to be, derived from sales of products based on Ethernet, SONET, SDH and ATM transmission standards. If the communications market evolves to new standards, we may not be able to successfully design and manufacture new products that address the needs of our customers or gain substantial market acceptance. Although we have developed products for the Gigabit Ethernet and Fibre Channel communications standards, volume sales of these products are modest, and we may not be successful in addressing other market opportunities for products based on these standards.

We encounter risks associated with our international operations.

We have generated a substantial portion of our net revenues from export sales. We believe that a substantial portion of our future net revenues will depend on export sales to customers in international markets, including Asia. International markets are subject to a variety of risks, including changes in policy by foreign governments, social conditions such as civil unrest, and economic conditions including high levels of inflation, fluctuation in the value of foreign currencies and currency exchange rates and trade restrictions or prohibitions. In addition, we sell to domestic customers that do business worldwide and cannot predict how the businesses of these customers may be affected by economic conditions in Asia or elsewhere. Such factors could adversely affect our future revenues, financial condition, results of operations or cash flows.

Our international sales are primarily denominated in U.S. currency. Consequently, changes in exchange rates that strengthen the U.S. dollar could increase the price of our products in the local currencies of the foreign markets we serve. This would result in making our products relatively more expensive than our competitors' products that are denominated in local currencies, leading to a reduction in sales or profitability in those foreign markets. We have not taken any protective measures against exchange rate fluctuations, such as purchasing hedging instruments.

Our operating results substantially depend on manufacturing output and yields, which may not meet expectations.

We manufacture most of our semiconductors at our San Jose and Santa Clara, California fabrication facilities. Manufacturing semiconductors requires manufacturing tools which are unique to each product being produced. If one of these unique manufacturing tools was damaged or destroyed, then our ability to manufacture the related product would be impaired and our business would suffer until the tool was repaired or replaced. Additionally, the fabrication of integrated circuits is a highly complex and precise process. Small impurities, contaminants in the manufacturing environment, difficulties in the fabrication process, defects in the masks used to print circuits on a wafer, manufacturing equipment failures, wafer breakage or other factors can cause a substantial percentage of wafers to be rejected or numerous die on each wafer to be nonfunctional.

The ongoing expansion of the manufacturing capacity of our existing wafer fabrication facilities could increase the risk of contaminants in the facilities. In addition, many of these problems are difficult to diagnose, and are time consuming and expensive to remedy and can result in lower output and yields and shipment delays.

Our future success depends in part on the continued service of our key design engineering, sales, marketing and executive personnel and our ability to identify, hire and retain additional personnel.

There is intense competition for qualified personnel in the semiconductor industry, in particular design engineers, and we may not be able to continue to attract and train engineers or other qualified personnel necessary for the development of our business or to replace engineers or other qualified personnel who may leave our employ in the future. Loss of the services of, or failure to recruit, key design engineers or other technical and management personnel could be significantly detrimental to our product and process development programs.

We may not be able to protect our intellectual property adequately, or we could be harmed by litigation involving our patents and proprietary rights.

Our future success depends in part upon our intellectual property, including patents, trade secrets, know-how and continuing technology innovation. There can be no assurance that the steps taken by us to protect our intellectual property will be adequate to prevent misappropriation or that others will not develop competitive technologies or products. There can be no assurance that any patent owned by us will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages to us or that any of our pending or future patent applications will be issued with the scope of the claims sought by us, if at all. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents owned by us.

Additionally, the semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. There can be no assurance that existing claims or any other assertions or claims for indemnity resulting from infringement claims will not adversely affect our business, financial condition, results of operations, or cash flows.

Our business could be adversely effected by electrical power or natural gas supply interruptions.

The majority or our administrative, technical and manufacturing facilities are located in Northern California and these facilities may be subject to electrical power or natural gas supply interruptions. In recent months, electrical power suppliers have experienced shortages in electrical power which has resulted in brief electrical power interruptions. The weak financial condition of California's Public Utilities may aggravate the situation and shortages may develop for natural gas. Semiconductor manufacturing depends upon a controlled environment which requires high usage of electrical power and natural gas. Frequent or extended electrical power interruptions could have a negative impact on production output, manufacturing yields, and manufacturing efficiencies. The Company intends to implement plans to reduce the impact of temporary power outages. These plans include the installation of emergency electrical power generation equipment. There can be no assurance that these plans will be successful. Frequent or extended electrical power or natural gas interruptions could have a material adverse impact on our business, financial condition and operating results.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk disclosures set forth in the 2000 Form 10-K have not changed significantly during the six months ended June 30, 2001.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. To the extent that the Company becomes involved in such intellectual property litigation, it could result in substantial costs and diversion of resources to the Company and could have a material adverse effect on the Company's financial condition or results of operations.

On July 2, 1999, National Semiconductor Corporation ("National"), a competitor of the Company, filed a complaint against the Company, entitled National Semiconductor Corporation v. Micrel Semiconductor, Inc. in the United States District Court, Northern District of California, in San Jose, California, alleging that the Company infringes five National Semiconductor patents. The complaint in the lawsuit seeks unspecified compensatory damages for infringement, and treble damages as well as permanent injunctive relief against further infringement of the National patents at issue. The Company intends to continue defending itself against these claims. The litigation is currently in the discovery phase. A trial date has not yet been set by the Court.

On February 26, 1999, the Lemelson Medical, Education & Research Foundation (the "Lemelson Partnership") filed a complaint which was served on the Company on June 15, 1999, entitled Lemelson Medical, Education & Research Foundation, Limited Partnership v. Lucent Technologies Inc., et al. in the United States District Court in Phoenix, Arizona, against eighty-eight defendants, including the Company, alleging infringement of Lemelson Foundation patents. The complaint in the lawsuit seeks unspecified compensatory damages, treble damages and attorneys' fees, as well as injunctive relief against further infringement of the Lemelson patents at issue. The Company intends to continue to defend itself against these claims. The case is currently in the discovery phase and no trial date has been set.

On May 9, 1994, Linear Technology Corporation ("Linear" or "LTC"), a competitor of the Company, filed a complaint against the Company, entitled Linear Technology Corporation v. Micrel, Incorporated, in the United States District Court in San Jose, California, alleging patent and copyright infringement and unfair competition. All claims, except the patent infringement claim, have been settled or dismissed. In this lawsuit, Linear claimed that two of the Company's products infringed one of Linear's patents. The complaint in the lawsuit sought unspecified compensatory damages, treble damages and attorneys' fees as well as preliminary and permanent injunctive relief against infringement of the Linear patent at issue. On August 20, 1999, the United States District Court in San Jose adjudicated in favor of the Company in this patent infringement suit brought by the plaintiff. The plaintiff alleged in the suit that the Company had infringed upon U.S. Patent No. 4,755,741, which covers design techniques used to increase the efficiency of switching regulators. The United States District Court in San Jose found the patent to be invalid under the "on sale bar" defense as the plaintiff had placed integrated circuits containing the alleged invention on sale more than a year before filing its patent application. The United States District Court in San Jose dismissed the plaintiff's complaint on the merits of the case and awarded the Company its legal costs. A notice of appeal of the Judgment was filed by Linear on September 17, 1999. Linear filed its appeal brief with the United States Court of Appeal for the Federal Circuit ("CAFC") in October, 2000. The Company filed its responsive brief with the CAFC in January, 2001. The parties are awaiting judgement on appeal.

On June 16, 1999, Paul Boon ("Boon" or "plaintiff"), an ex-employee of the Company, filed a complaint in the Superior Court of California entitled Paul Boon v. Micrel Incorporated, dba Micrel Semiconductor, alleging breach of employment contract, discrimination based upon age, and wrongful termination in violation of public policy. On October 12, 2000, Boon filed an amended complaint alleging breach of an implied covenant of good faith and fair dealing, and breach of written agreement, in addition to the original causes of action. On February 23, 2001, a jury decided that the Company had breached an employment contract with plaintiff and awarded plaintiff $1.3 million. On April 13, 2001, the Company filed a motion for judgement notwithstanding the verdict or alternatively, a motion for new trial. On May 18, 2001, the Court granted the Company's motion, issuing an order which vacated and set aside the judgement in favor of Boon, and ordered a new trial on all issues. A new trial date was set for July 16, 2001. Prior to the beginning of trial, the parties settled the matter. On July 27, 2001, the case was dismissed by the Court.

The Company believes that the ultimate outcome of the legal actions discussed above will not result in a material adverse effect on the Company's financial condition, results of operation or cash flows. However, litigation is subject to inherent uncertainties, and no assurance can be given that the Company will prevail in these lawsuits. Accordingly, the pending lawsuits as well as potential future litigation with other companies, could result in substantial costs and diversion of resources and could have a material adverse effect on the Company’s financial condition, results of operations or cash flows.

Certain additional claims and lawsuits have arisen against the Company in its normal course of business. The Company believes that these claims and lawsuits will not have a material adverse effect on the Company's financial condition, results of operation or cash flows.

In the event of an adverse ruling in any intellectual property litigation that now exists or might arise in the future, the Company might be required to discontinue the use of certain processes, cease the manufacture, use and sale of infringing products, expend significant resources to develop non-infringing technology or obtain licenses to the infringing technology. There can be no assurance, however, that under such circumstances, a license would be available under reasonable terms or at all. In the event of a successful claim against the Company and the Company's failure to develop or license substitute technology on commercially reasonable terms, the Company's financial condition, results of operations, or cash flows could be adversely affected.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

On May 30, 2001, the Company completed the acquisition of Kendin Communications Inc., a fabless semiconductor company that designs, develops and markets high performance integrated circuits for the communications and networking markets. In connection with the acquisition, the Company issued approximately 6.1 million shares of its common stock in exchange for all outstanding Kendin securities and options to purchase such securities. The shares of Micrel common stock issued as consideration in the acquisition were issued in transactions exempt from registration under the Securities Act of 1933, as amended, pursuant to Rule 506 of Regulation D and Regulation S promulgated thereunder. Pursuant to the acquisition agreement with Kendin, the Company filed on June 22, 2001 a registration statement on Form S-3 registering for resale 50% of the shares of Micrel common stock issued in the acquisition. The Company also has agreed to use commercially reasonable efforts to file a second registration statement on Form S-3 registering for resale the remaining 50% of the shares of Micrel common stock issued in the acquisition within the 18 week period following May 30, 2001, and has agreed to use commercially reasonable efforts to cause such second registration statement to become effective 6 months after May 30, 2001.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders (the "Annual Meeting") was held on May 24, 2001 at 12:00 p.m. local time, at its corporate offices located at 2180 Fortune Drive, San Jose, California. The Annual Meeting was held for the purpose of (a) electing five members of the Board of Directors, (b) ratifying and approving the appointment of Deloitte and Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2001 and (c) transacting such other business as may properly come before the Annual Meeting. Two matters below were voted upon and approved:

Proposal No. 1 - Election of five members of the Board of Directors:

The following persons were duly elected to the Board by the shareholders for a one year term and until their successors are elected and qualified:

NOMINATION	**FOR**	**ABSTAINED**
Raymond D. Zinn	68,574,199	13,181,341
Warren H. Muller	81,213,642	541,898
Larry L. Hansen	81,235,845	519,695
George Kelly	81,235,489	520,051
Dale L. Peterson	81,237,313	518,227

Proposal No. 2 - Ratification of the appointment of Deloitte & Touche LLP as the Company's independent auditors for the fiscal year ending December 31, 2001:

NOMINATION	**FOR**	**AGAINST**	**ABSTAINED**
Deloitte & Touche LLP	81,703,791	48,804	2,945

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

2.1 Agreement and Plan of Merger and Reorganization among Micrel, Incorporated, Kournikova Acquisition Sub, Inc., Kendin Communications Inc., and with respect to Articles VIII and IX only, John C.C. Fan, as Stockholders' Agent, dated May 4, 2001. (1)

10.1 Loan and Security Agreement between Micrel, Incorporated and Bank of the West, dated June 29, 2001. (2)

(1) Incorporated herein by reference to exhibit 10.1 filed with the Company's registration statement on Form S-3 filed with the SEC on June 22, 2001.

(2) Incorporated by reference to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, in which this exhibit bears the same number unless otherwise noted.

(b) Reports on Form 8-K. During the quarter ended June 30, 2001, the Company filed a Report on Form 8-K, dated May 30, 2001, announcing the completion of its acquisition of Kendin Communications Inc. Also during the quarter ended June 30, 2001, the Company filed a Report on Form 8-K, dated June 21, 2001, announcing its revised outlook for the second quarter of 2001.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MICREL, INCORPORATED
(Registrant)

Date: April 1, 2002 By /s/ Richard D. Crowley, Jr.

Richard D. Crowley, Jr.
Vice President, Finance and
Chief Financial Officer
(*Authorized Officer and*
Principal Financial Officer)