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

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2002.

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 April 30, 2002 there were 92,933,451 shares of common stock, no par value, outstanding.

MICREL, INCORPORATED
INDEX TO
REPORT ON FORM 10-Q
FOR QUARTER ENDED MARCH 31, 2002

ITEM 1. FINANCIAL STATEMENTS

MICREL, INCORPORATED

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share amounts)

	March 31, 2002 (Unaudited)	December 31, 2001 [(1)]
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 133,283	$ 130,406
Short-term investments	86	3,093
Accounts receivable, net	31,024	28,209
Inventories	38,547	35,394
Other current assets	3,111	8,754
Deferred income taxes	28,721	27,367
Total current assets	234,772	233,223
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	112,278	117,571
INTANGIBLE ASSETS, NET	3,195	3,660
OTHER ASSETS	391	359
TOTAL	$ 350,636	$ 354,813
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 14,175	$ 12,737
Deferred income on shipments to distributors	8,288	9,777
Other current liabilities	11,030	10,154
Current portion of long-term debt	2,823	3,615
Total current liabilities	36,316	36,283
LONG-TERM DEBT	937	1,299
OTHER LONG-TERM OBLIGATIONS	3,591	3,901
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: 2002 - 93,167,433 shares; 2001 - 92,823,677 shares	190,494	194,384
Deferred stock compensation	(40,422)	(44,755)
Accumulated other comprehensive loss	(25)	(25)
Retained earnings	159,745	163,726
Total shareholders' equity	309,792	313,330
TOTAL	$ 350,636	$ 354,813

(1) Derived from the audited balance sheet included in the Annual Report on Form 10-K of Micrel, Incorporated for the year ended December 31, 2001.

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
NET REVENUES	$ 48,325	$ 74,951
COST OF REVENUES*	30,677	35,757
GROSS PROFIT	17,648	39,194
OPERATING EXPENSES:		
Research and development	13,362	13,101
Selling, general and administrative	7,995	11,470
Amortization of deferred stock compensation*	2,593	2,068
Total operating expenses	23,950	26,639
INCOME (LOSS) FROM OPERATIONS	(6,302)	12,555
OTHER INCOME, NET	1,064	1,749
INCOME (LOSS) BEFORE INCOME TAXES	(5,238)	14,304
PROVISION (BENEFIT) FOR INCOME TAXES	(1,257)	4,632
NET INCOME (LOSS)	$ (3,981)	$ 9,672
NET INCOME (LOSS) PER SHARE:		
Basic	$ (0.04)	$ 0.11
Diluted	$ (0.04)	$ 0.10
SHARES USED IN COMPUTING PER SHARE AMOUNTS:		
Basic	93,180	90,936
Diluted	93,180	98,330
* Amortization of deferred stock compensation related to:		
Cost of revenues	$ 768	$ 729
Research and development	$ 1,360	$ 1,080
Selling, general and administrative	1,233	988
Total	$ 2,593	$ 2,068

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED

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

	Three Months Ended March 31, 2002	Three Months Ended March 31, 2001
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 5,716	$ 25,453
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and leasehold improvements	(2,445)	(13,257)
Purchases of short-term investments	--	(10,290)
Proceeds from sales and maturities of short-term investments	3,007	36,028
Net cash provided by investing activities	562	12,481
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(1,154)	(1,306)
Proceeds from the issuance of common stock, net	3,122	3,750
Repurchase of common stock	(5,369)	--
Net cash provided (used) by financing activities	(3,401)	2,444
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,877	40,378
CASH AND CASH EQUIVALENTS - Beginning of period	130,406	86,137
CASH AND CASH EQUIVALENTS - End of period	$ 133,283	$ 126,515
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 62	$ 203
Income taxes	$ 68	$ 3,323
Non-cash transactions:		
Deferred stock compensation (reversal)	$ (972)	$ 1,255

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 March 31, 2002 and for the quarters ended March 31, 2002 and 2001 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 Annual Report on Form 10-K for the year ended December 31, 2001.

***Net Income (loss) per Common and Equivalent Share* -** Basic net income (loss) per share is computed by dividing net income (loss) by the number of weighted average common shares outstanding. Diluted net income (loss) 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 March 31, 2002	Three Months Ended March 31, 2001
Weighted average common shares outstanding	93,180	90,936
Dilutive effect of stock options outstanding using the treasury stock method	--	7,394
Shares used in computing diluted net income (loss) per share	93,180	98,330

As of March 31, 2002, the Company had 13,730,725 options outstanding which could potentially dilute basic earnings per share in the future but were excluded from the calculation of diluted net loss per share in the period presented as the effect would be antidilutive.

2. 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(in thousands):

Net revenues:	
Micrel	$ 64,855
Kendin	10,096
Total	$ 74,951
Net income:	
Micrel	$ 9,388
Kendin	284
Total	$ 9,672

3. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2002	December 31, 2001
Finished goods	$ 17,996	$ 16,812
Work in process	18,873	16,506
Raw materials	1,678	2,076
	$ 38,547	$ 35,394

4. 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 March 31, 2002. The two lines of credit are covered by the same loan and security agreement. The revolving line of credit portion of the agreement 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 expires on June 30, 2002. Borrowings under the revolving line of credit bear interest rates of, at the Company's election, the prime rate (4.75% at March 31, 2002), or the bank's revolving offshore rate, which approximates LIBOR (2.03% at March 31, 2002) 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%, a fixed rate based on the four-year U.S. Treasury Bill rate (4.60% at March 31, 2002) plus 2.75% or an annual adjustable rate based on the one-year U.S. Treasury Bill rate (2.62% at March 31, 2002) plus 2.75%. The agreements contain 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 covenants at March 31, 2002.

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 substantially all of the Company's manufacturing equipment.

As of March 31, 2002, the Company had $3.8 million outstanding under term notes.

5. SIGNIFICANT CUSTOMERS

During the quarter ended March 31, 2002, one customer accounted for $6.5 million (13.5%) of net revenues. During the quarter ended March 31, 2001, no customer accounted for 10% or more of net revenues.

6. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), which is comprised of the Company's net income (loss) for the periods and changes in unrealized gains or losses on investments, was a loss of $4.0 million and an income $9.6 million for the quarters ended March 31, 2002 and 2001, respectively.

7. SEGMENT REPORTING

The Company adopted SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information,” which establishes annual and interim reporting standards for an enterprise’s business segments and related disclosures about its products, services, geographic areas and major customers. The Company operates under two reportable segments, standard products and custom and foundry products.

Net Revenues by Segment
(Dollars in thousands)

	Three Months Ended March 31,	
	2002	**2001**
Net Revenues:		
Standard Products	$ 43,032	$ 63,127
Custom and Foundry Products	5,293	11,824
Total net revenues	$ 48,325	$ 74,951
As a Percentage of Total Net Revenues:		
Standard Products	89%	84%
Custom and Foundry Products	11	16
Total net revenues	100%	100%

8. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and SFAS No. 142, "Goodwill and Other Intangible Assets". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. SFAS No. 142 addresses the initial recognition and measurement of intangible assets acquired outside of a business combination and the accounting for goodwill and other intangible assets subsequent to their acquisition. SFAS No. 142 provides that intangible assets with finite useful lives be amortized and that goodwill and intangible assets with indefinite lives will not be amortized, but will rather be tested at least annually for impairment. The Company adopted SFAS No. 142 for the fiscal year beginning January 1, 2002. The impact of adopting this standard had no effect on the Company's financial position or results of operations.

In October 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 requires that one accounting model be used for long-lived assets to be disposed of by sale whether previously held and used or newly acquired, and broadened the presentation of discontinued operations to include more disposal transactions. The Company adopted SFAS No. 144 for the fiscal year beginning January 1, 2002. The impact of adopting this standard had no effect on the Company's financial position or results of operations.

9. LITIGATION AND OTHER 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 motion and discovery phase. An initial trial date has been set by the Court for September 16, 2002.

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 motion and 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 with the United States Court of Appeal for the Federal Circuit ("CAFC") on September 17, 1999. After briefing and oral argument by both companies, on December 28, 2001 the CAFC reversed the District Court's judgment of invalidity and remanded the case to the District Court. The Company intends to continue to vigorously defend itself against the claims set forth in the lawsuit.

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

Overview

Micrel designs, develops, manufactures and markets a range of high performance standard analog integrated circuits and high-speed mixed-signal and digital integrated circuits. These circuits are used in a wide variety of electronics products, including those in the computer, telecommunications, industrial and networking 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 89% of net revenues for the quarter ended March 31, 2002 as compared to 84% for the similar period 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.

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 March 31,	
	2002	**2001**
Net revenues	100.0%	100.0%
Cost of revenues	63.5	47.7
Gross profit	36.5	52.3
Operating expenses:		
Research and development	27.6	17.4
Selling, general and administrative	16.5	15.3
Amortization of deferred stock compensation	5.4	2.8
Total operating expenses	49.5	35.5
Income (loss) from operations	(13.0)	16.8
Other income, net	2.2	2.3
Income (loss) before income taxes	(10.8)	19.1
Provision (benefit) for income taxes	(2.6)	6.2
Net income (loss)	(8.2)%	12.9%

Net Revenues. Net revenues decreased 36% to $48.3 million for the quarter ended March 31, 2002 from $75.0 million for the same period in 2001. This decrease was due to decreased standard products revenues and lower custom and foundry products revenues. Standard products revenues decreased 32% to $43.0 million representing 89% of net revenues for the quarter ended March 31, 2002 from $63.1 million or 84% of net revenues for the quarter ended March 31, 2001. Such decreases resulted primarily from decreased unit shipments of high bandwidth communications products, telecommunications products and products shipped to industrial manufacturers, partially offset by increased unit shipments of Ethernet communications products and computer products. Sales of standard products by the Company during the quarter were led by low dropout regulators, Ethernet communications products and computer peripheral products. Such products were sold primarily to manufacturers within the computer, network communications, telecommunications, and industrial markets. Custom and foundry products revenues decreased 55% to $5.3 million representing 11% of net revenues for the quarter ended March 31, 2002 from $11.8 million or 16% of net revenues for the comparable period in 2001. Such decreases were due primarily to decreased unit shipments of foundry products.

Customer demand for semiconductors can change quickly and unexpectedly. As a result of the slowing global economy, a rapid build-up of semiconductor inventories in global sales channels occurred during 2001, causing lead times for components to fall precipitously. Due to the combination of excess supply, reduced demand and lower lead times, new order rates for the Company's products declined and a significant amount of previously placed orders were cancelled during the first half of 2001. This decline in new order rates resulted in sequential declines in the Company's revenues for the first three quarters of 2001.

The short lead time environment has continued from the middle of 2001 through the end of the first quarter of 2002. Customers perceive that semiconductor components are readily available and continue to order only for their short-term needs. Although new order rates improved in the first quarter of 2002 compared to the fourth quarter of 2001, order backlog remains low. As a result of the low backlog , the Company’s revenue levels are highly dependent on the amount of new orders that are received for which product can be delivered to the customer within the same period. Within the semiconductor industry these orders that are booked and shipped within the period are called “turns fill” orders. Currently, the uncertainty of customer demand, the high turns fill requirement, and associated uncertainty of product mix and pricing, make it difficult to predict future levels of sales and profitability.

International sales represented 70% and 50% of net revenues for the quarters ended March 31, 2002 and 2001, respectively. On a dollar basis, international sales decreased 10% to $33.9 million for the quarter ended March 31, 2002 from $37.8 million for the comparable period in 2001. The dollar basis decrease in international sales primarily resulted from decreased shipments to European manufacturers of personal computers and communications products, offset in part by 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, product mix, manufacturing utilization, product yields and average selling prices. The Company's gross margin decreased to 37% for the quarter ended March 31, 2002 from 52% for the comparable period in the prior year. The decrease in gross margin resulted primarily from decreased average selling prices, decreased capacity utilization and a greater mix of lower margin products as compared to the same period in 2001.

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 28% and 17% for the quarters ended March 31, 2002 and 2001, respectively. On a dollar basis, research and development expenses increased $261,000 or 2% to $13.4 million for the quarter ended March 31, 2002 from $13.1 million for the comparable period in 2001. The dollar increase was primarily due to increased prototype fabrication 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 17% and 15% for the quarters ended March 31, 2002 and 2001, respectively. On a dollar basis, selling, general and administrative expenses decreased $3.5 million or 30% to $8.0 million for the quarter ended March 31, 2002 from $11.5 million for the comparable period in 2001. The dollar decreases were principally attributable to decreased sales commissions, decreased staffing expenses and decreased profit sharing accruals, which were partially offset by increased legal 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 ("APB 25"), "Accounting for Stock Issued to Employees". The Company's practices in effect through December 2001 related to employee stock option pricing resulted in stock compensation expense under APB 25. For the quarter ended March 31, 2002 total amortization of deferred stock compensation was $3.4 million of which $768,000 was included in cost of revenues and $2.6 million was included in amortization of deferred stock compensation. For the quarter ended March 31, 2001, total amortization of deferred stock compensation was $2.8 million of which $729,000 was included in cost of revenues and $2.1 million was included in amortization of deferred stock compensation.

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 decreased $685,000 to $1.1 million for the quarter ended March 31, 2002 from $1.7 million for the comparable period in 2001. The decrease was primarily due to decreased rates of return on short-term investments, which was partially offset by $490,000 in non-recurring other income combined with a reduction in interest expense resulting from decreased average term note balances.

Provision for Income Taxes. For the quarters ended March 31, 2002 and 2001, the provision for income taxes was 24% and 32% of income before taxes, respectively. The income tax provision for such interim periods reflects the Company’s estimated annual income tax rate. The estimated provision for income taxes differs from taxes computed at the federal statutory rate primarily due to the effect of federal and state research and development credits, and state manufacturing credits.

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 March 31, 2002 consisted of cash and short-term investments of $133 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 March 31, 2002. The two lines of credit are covered by the same loan and security agreement. The revolving line of credit portion of the agreement 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 expires on June 30, 2002. Borrowings under the revolving line of credit bear interest rates of, at the Company's election, the prime rate, or the bank's revolving offshore rate, which approximates LIBOR 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%, a fixed rate based on the four-year U.S. Treasury Bill rate plus 2.75% or an annual adjustable rate based on the one-year U.S. Treasury Bill rate plus 2.75%. The agreements contain 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 covenants at March 31, 2002.

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 substantially all of the Company's manufacturing equipment.

As of March 31, 2002, the Company had $3.8 million outstanding under term notes.

The Company's working capital increased by $1.5 million to $198.5 million as of March 31, 2002 from $196.9 million as of December 31, 2001. The increase was primarily attributable to a $3.2 million increase in inventories, a $2.8 million increase in accounts receivable and a $1.4 million increase in deferred income taxes combined with a $1.5 million decrease in deferred income on shipments to distributors, which were partially offset by a $5.4 million decrease in prepaid expense and other and a $1.4 million increase in accounts payable.

The Company's cash flows from operating activities were $5.7 million for the quarter ended March 31, 2002 as compared to $25.5 million for the same period in the prior year. This decrease resulted primarily from decreased net income after adjusting for non-cash activities. The cash flows from operating activities generated by the Company in the quarter ended March 31, 2002 were primarily attributable to net income of $5.9 million after adding back non-cash activities combined with a decrease in prepaid expenses and other of $5.6 million and an increase in accounts payable of $1.4 million, which were partially offset by increases in inventories of $3.2 million, accounts receivables of $2.8 million and a decrease in deferred income on shipments to distributors of $1.5 million.

The Company’s investing activities during the quarter ended March 31, 2002 provided cash of $562,000 as compared to $12.5 million of cash provided during the comparable period in the prior year. This decrease resulted primarily from a decrease in net sales of short-term investments. Cash provided by investing activities during the quarter ended March 31, 2002 resulted from net sales of short-term investments of $3.0 million, which was partially offset by net purchases of property, plant and equipment of $2.4 million primarily for research and development software and leasehold improvements.

The Company's financing activities during the quarter ended March 31, 2002 used cash of $3.4 million as compared to cash provided of $2.4 million during the comparable period in the prior year. Cash used by financing activities during the quarter ended March 31, 2002 was the result of $5.4 million in repurchase of common stock and $1.2 million in repayments of long-term debt which was partially offset by proceeds from the issuance of common stock through the exercise of employee stock options of $3.1 million.

The Company currently estimates its capital equipment purchases to be approximately $15 million for year 2002, of which $2.4 million was expended in the first quarter. The Company expects to purchase primarily additional research and development, wafer and test manufacturing equipment and leasehold improvements. The Company expects that its cash requirements through 2002 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

The statements contained in this Report on Form 10-Q 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 or strategies regarding the future. Forward-looking statements include: statements regarding future products or product development; statements regarding future research and development spending and the Company’s product development strategy; statements regarding the levels of international sales; statements regarding future expansion or utilization of manufacturing capacity; statements regarding future expenditures; and statements regarding 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 are set forth below. Additional factors that may affect operating results are contained within the Company's Form 10-K for the year ended December 31, 2001.

The Company is exposed to 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. The technology related end markets that the Company serves such as the high-speed communications, computing and telecommunications markets have been greatly effected by this economic slowdown. As a result of these unfavorable economic conditions, the Company has experienced lower levels of new customer order rates and lower revenue levels. If these weak economic conditions in the global economy continue or worsen, or if a wider global economic recession materializes, the Company's business, financial condition and results of operations may be materially and adversely affected.

The Company's operating results may fluctuate because of a number of factors, many of which are beyond its control.

If the Company's operating results are below the expectations of public market analysts or investors, then the market price of its Common Stock could decline. Some of the factors that affect the Company's quarterly and annual results, but which are difficult for the Company to control or predict are:

- the volume and timing of orders received
- changes in the mix of products sold
- market acceptance of the Company's products and its customers' products
- competitive pricing pressures
- cyclical semiconductor industry conditions
- dependence on third party suppliers
- the ability to introduce new products on a timely basis
- the timing of new product announcements and introductions by the Company or its competitors
- the timing and extent of research and development expenses
- fluctuations in manufacturing yields
- the ability to hire and retain key technical and management personnel
- access to advanced process technologies
- the timing and extent of process development costs
- the current California energy crisis

Customer demand for the Company's products is volatile and difficult to predict

The Company's customers continuously adjust their inventories in response to changes in end market demand for their products and the availability of semiconductor components. This results in frequent changes in demand for the Company's products. The volatility of customer demand limits the Company's 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 the Company's customers serve to grow less rapidly, or in some cases, contract. The resulting uncertainty of demand has caused most of the Company's customers to err 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 historic 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. As a result, the Company's revenues are highly dependent upon turns fill orders (orders booked and shipped in the same quarter). The reduced level of order backlog coupled with the short term nature of customer demand makes it extremely difficult to predict near term revenues and profits.

The cyclical nature of the semiconductor industry can result in downturns that can harm the Company's operating results.

The semiconductor industry has historically been cyclical and periodically subject to significant economic downturns. These downturns have been characterized by diminished product demand, accelerated erosion of selling prices and over capacity levels as well as rapidly changing technology and evolving industry standards. Management believes that the semiconductor industry is currently in such a downturn and that the decrease in our net revenues from $75.0 million for the quarter ended March 31, 2001, to $48.3 million for the quarter ended March 31, 2002 is primarily due to this downturn. The Company's net revenues may continue to be adversely affected if this downturn continues. In general, the Company may experience future substantial period-to-period fluctuations in its business and operating results due to general semiconductor industry conditions, overall economic conditions or other factors.

The Company's gross margin is dependent upon a number of factors, including the level of capacity utilization.

Semiconductor manufacturing is a capital-intensive business resulting in high fixed costs. If the Company is unable to utilize its 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. The decline in new customer order rates has resulted in reduced capacity utilization of the Company's factories as it has attempted to match production with anticipated customer demand. The Company's gross margins have declined as a result of this reduced utilization of production capacity. Gross margins may deteriorate further should production activity be curtailed in response to lower customer demand in the future.

The semiconductor 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

In times of weak economic conditions, such as the semiconductor industry is now experiencing and due to uncertain customer demand and under-utilization of semiconductor fabrication capacity, price competition becomes more prevalent. This can have the effect of reducing revenue levels and gross margins.

Because the standard products market for integrated circuits is diverse and highly fragmented, the Company encounters different competitors in various market areas. Most of these competitors have substantially greater technical, financial and marketing resources and greater name recognition than the Company has. Increased competition could adversely affect the Company's financial condition or results of operations. There can be no assurance that the Company 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 the Company's financial condition, results of operations, or cash flows.

The Company may not be able to protect its intellectual property adequately, or could be harmed by litigation involving its patents and proprietary rights.

The Company's future success depends in part upon its intellectual property, including patents, trade secrets, know-how and continuing technology innovation. There can be no assurance that the steps taken by the Company to protect its 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 the Company will not be invalidated, circumvented or challenged, that the rights granted thereunder will provide competitive advantages or that any of its pending or future patent applications will be issued with the scope of the claims sought, if at all. Furthermore, there can be no assurance that others will not develop technologies that are similar or superior to the Company's technology, duplicate technology or design around the patents owned by the Company. 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 the Company's business, financial condition, results of operations, or cash flows.

Dependence on third-party manufacturing and supply relationships increases the risk that the Company will not have an adequate supply of products to meet demand or that its cost of materials will be higher than expected.

The Company faces many risks associated with its dependence upon third parties that manufacture, assemble or package certain of our products. These risks include:

- reduced control over delivery schedules and quality
- risks of inadequate manufacturing yields and excessive costs
- the potential lack of adequate capacity during periods of excess demand
- difficulties selecting and integrating new subcontractors
- limited warranties on wafers or products supplied to the Company
- potential increases in prices
- potential misappropriation of the Company's intellectual property

Any of these risks may lead to increased costs or delay delivery of the Company's products, which would harm its profitability and customer relationships.

Additionally, the Company's wafer and product requirements typically represent a relatively small portion of the total production of the third-party foundries and outside assembly, testing and packaging contractors. As a result, Micrel is subject to the risk that a foundry will provide delivery or capacity priority to other larger customers at the expense of Micrel, resulting in an inadequate supply to meet customer demand or higher costs to obtain the necessary product supply. Also, there is a risk that third party manufacturer will cease production on an older or lower volume process that it uses to produce the Company's products. The Company cannot be certain that its outside manufacturers will continue to devote resources to the production of its products or continue to advance the process design technologies on which the manufacturing of its products are based. Each of these events could increase the Company's costs and harm its ability to deliver our products on time.

The Company's product offering is concentrated and are highly dependent on certain select end markets.

The Company currently sells a significant portion of its products in the high speed communications, computer, networking 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, networking or wireless handsets that the Company serves fail to grow, or grows more slowly than it currently anticipates, or if there is increased competition in these markets, the Company's business, results of operations and financial condition could be adversely affected.

The Company currently derives the majority of its product revenues from sales of standard analog and mixed-signal integrated circuits and expects these products to continue to account for the majority of its 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 the Company's business and consolidated results of operations and financial condition.

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

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

The Company's Ethernet products have become an important portion of the Company's revenues with the acquisition of Kendin. If the Company fails to develop new products to serve this market in a timely manner, or if a competitor's products unfavorably effect pricing or demand for the Company's products, the Company's revenues and results of operations could be adversely effected.

The markets which the Company serves frequently undergo transitions in which products rapidly incorporate new features and performance standards on an industry-wide basis. If the Company's products are unable to support the new features or performance levels required by OEMs in these markets, it 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 the Company fails to develop products with required features or performance standards, or experiences even a short delay in bringing a new product to market, or if its customers fail to achieve market acceptance of their products, its revenues could be significantly reduced for a substantial period of time.

The Company encounters risks associated with its international operations.

The Company has generated a substantial portion of its net revenues from export sales. The Company believes that a substantial portion of its 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, the Company sells 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 the Company's future revenues, financial condition, results of operations or cash flows.

The Company is reliant on certain key suppliers for wafer fabrication, circuit assembly and testing services. Most of these suppliers are based outside of the U.S. The Company's supply could be interrupted as a result of any of the previously mentioned risk factors relating to international markets.

The Company's 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 the Company's products in the local currencies of the foreign markets it serves. This would result in making the Company's products relatively more expensive than its 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.

The Company is subject to the a risk of litigation and regulatory action in connection with the restatement of its financial statements, and the potential liability from any such litigation or regulatory action could harm its business.

On January 28, 2002, the Company announced that it would restate its consolidated financial statements for the fiscal years ended December 31, 1998, 1999, and 2000, and the fiscal quarters ended March 31, 2001, June 30, 2001, and September 30, 2001. As a result of this restatement, the Company could become subject to litigation or regulatory proceedings, or both. As of the date hereof, the Company is not aware of any litigation having been commenced against it related to this restatement. However, such litigation could be commenced against the Company in the future and, if so, the Company cannot predict the outcome of any such action at this time. However, if an unfavorable result occurred in any such action, the Company's business and financial condition could be harmed. In addition, regulatory agencies, such as the Securities and Exchange Commission, could commence a formal investigation of the Company's restatement. At this time management cannot predict whether or not any regulatory investigation related to the restatement will be commenced or, if it is, the outcome of any such investigation. However, if any such investigation were to result in a regulatory proceeding or action against the Company, its business and financial condition could be harmed. The restatement also involves certain tax issues that need to be resolved with the appropriate taxing authorities. The Company has recorded a liability in its financial statements with respect to these tax issues. The Company can not predict the results of its discussions with the appropriate tax authorities regarding the tax implications of its restatement and accordingly, the amount of actual financial impact may differ from the amount recorded in the Company's financial statements.

The Company's operating results substantially depend on manufacturing output and yields, which may not meet expectations.

The Company manufactures most of its semiconductors at its 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 the Company's ability to manufacture the related product would be impaired and its 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 Company faces risks associated with acquisitions it has completed and will face risks associated with any future acquisitions.

The Company has made four strategic acquisitions in the past three years: Synergy Semiconductor in November 1998, Altos Semiconductor Inc. in December 1999, Electronic Technology Corporation in April 2000 and Kendin Communications Inc. in May 2001. The acquisition of Kendin Communications Inc. is the largest acquisition that the Company has undertaken. The risks involved with these acquisitions and any other acquisitions include:

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

Any of these risks could materially harm the Company's business, financial condition and results of operations. Additionally, any acquisition involves a significant amount of integration of two companies that have previously operated independently. No assurance can be given that difficulties will not be encountered in integrating certain products, technologies or operations of the acquired companies or that the benefits expected from such integration will be realized. There can be no assurance that any of the acquired companies will retain its key personnel, that the engineering teams of Micrel and the acquired companies will successfully cooperate and realize any technological benefits or that Micrel or the acquired companies will realize any of the other anticipated benefits of the acquisitions. In addition, the consummation of the Kendin acquisition could result in the cancellation, termination or non-renewal of arrangements with Kendin by suppliers, distributors or customers of Kendin or the loss of certain key Kendin employees, or the termination of negotiations or delays in ordering by prospective customers of Kendin as a result of uncertainties that may be perceived as a result of the acquisition. Any significant amount of cancellations, terminations, delays or non-renewals of arrangements with Kendin or loss of key employees or termination of negotiations or delays in ordering could have a material adverse effect on the business, operating results or financial condition of Kendin and Micrel after the acquisition.

In addition, some of these acquisitions have been accounted for using the pooling-of-interests method of accounting which means the acquisitions 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 that has been accounted for under the pooling of interests accounting method to qualify for this accounting treatment would materially harm the Company's reported and future earnings and likely, the price of its Common Stock.

The Company's future success depends in part on the continued service of its key design engineering, sales, marketing and executive personnel and its ability to identify, hire and retain additional personnel.

There is intense competition for qualified personnel in the semiconductor industry, in particular design engineers, and the Company may not be able to continue to attract and train engineers or other qualified personnel necessary for the development of its business or to replace engineers or other qualified personnel who may leave its 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 the Company's product and process development programs.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk disclosures set forth in the 2001 Form 10-K have not changed significantly during the quarter ended March 31, 2002.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information included in Note 9 of Notes to Condensed Consolidated Financial Statements under the caption "Litigation and Other Contingencies" in Item 1 of Part I is incorporated herein by reference.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits. None.

(b) Reports on Form 8-K. The Company did not file any Reports on Form 8-K during the quarter ended March 31, 2002.

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: May 13, 2002

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