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 June 30, 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 July 31, 2002 there were 92,700,726 shares of common stock, no par value, outstanding.

MICREL, INCORPORATED
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REPORT ON FORM 10-Q
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2002

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ITEM 1. FINANCIAL STATEMENTS

MICREL, INCORPORATED

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

	June 30, 2002 (Unaudited)	December 31, 2001 [1]
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 118,739	$ 130,406
Short-term investments	77	3,093
Accounts receivable, net	29,760	28,209
Inventories	44,093	35,394
Other current assets	4,798	8,754
Deferred income taxes	29,857	27,367
Total current assets	227,324	233,223
EQUIPMENT AND LEASEHOLD IMPROVEMENTS, NET	107,007	117,571
INTANGIBLE ASSETS, NET	9,832	3,660
OTHER ASSETS	398	359
TOTAL	$ 344,561	$ 354,813
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 15,175	$ 12,737
Deferred income on shipments to distributors	7,791	9,777
Other current liabilities	9,483	10,154
Current portion of long-term debt	1,975	3,615
Total current liabilities	34,424	36,283
LONG-TERM DEBT	749	1,299
OTHER LONG-TERM OBLIGATIONS	6,800	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 - 92,803,920 shares; 2001 - 92,823,677 shares	179,011	194,384
Deferred stock compensation	(36,412)	(44,755)
Accumulated other comprehensive loss	(26)	(25)
Retained earnings	160,015	163,726
Total shareholders' equity	302,588	313,330
TOTAL	$ 344,561	$ 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 STATEMENT OF OPERATIONS
(Unaudited)
(In thousands, except per share amounts)

	Three Months Ended June 30, 2002	Three Months Ended June 30, 2001	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
NET REVENUES	$ 55,363	$ 50,774	$ 103,688	$ 125,725
COST OF REVENUES*	34,139	31,247	64,816	67,004
GROSS PROFIT	21,224	19,527	38,872	58,721
OPERATING EXPENSES:				
Research and development	13,009	12,396	26,371	25,497
Selling, general and administrative	8,874	7,583	16,869	19,053
Amortization of deferred stock compensation*	2,459	2,226	5,052	4,294
Non-recurring acquisition expenses*	--	8,894	--	8,894
Total operating expenses	24,342	31,099	48,292	57,738
INCOME (LOSS) FROM OPERATIONS	(3,118)	(11,572)	(9,420)	983
OTHER INCOME (EXPENSE), NET	(476)	1,411	588	3,160
INCOME (LOSS) BEFORE INCOME TAXES	(3,594)	(10,161)	(8,832)	4,143
PROVISION (BENEFIT) FOR INCOME TAXES	(3,864)	(1,522)	(5,121)	3,110
NET INCOME (LOSS)	$ 270	$ (8,639)	$ (3,711)	$ 1,033
NET INCOME (LOSS) PER SHARE:				
Basic	$ 0.00	$ (0.09)	$ (0.04)	$ 0.01
Diluted	$ 0.00	$ (0.09)	$ (0.04)	$ 0.01
SHARES USED IN COMPUTING PER SHARE AMOUNTS:				
Basic	92,984	91,888	93,045	91,412
Diluted	96,287	91,888	93,045	98,188
* Amortization of deferred stock compensation related to:				
Cost of revenues	$ 784	$ 782	$ 1,552	$ 1,511
Operating expenses:				
Research and development	$ 1,367	$ 1,163	$ 2,727	$ 2,243
Selling, general and administrative	1,092	1,063	2,325	2,051
	2,459	2,226	5,052	4,294
Non-recurring acquisition expenses	--	2,007	--	2,007
Total operating expenses	$ 2,459	$ 4,233	$ 5,052	$ 6,301

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED

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

	Six Months Ended June 30, 2002	Six Months Ended June 30, 2001
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES	$ 7,952	$ 40,039
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of equipment and leasehold improvements	(5,698)	(23,936)
Purchases of intangible assets	(2,054)	--
Purchases of short-term investments	--	(30,537)
Proceeds from sales and maturities of short-term investments	3,015	50,685
Net cash used by investing activities	(4,737)	(3,788)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(2,190)	(2,872)
Proceeds from the issuance of common stock, net	5,594	5,001
Repurchase of common stock	(18,286)	--
Net cash provided (used) by financing activities	(14,882)	2,129
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(11,667)	38,380
CASH AND CASH EQUIVALENTS - Beginning of period	130,406	86,137
CASH AND CASH EQUIVALENTS - End of period	$ 118,739	$ 124,517
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 153	$ 370
Income taxes	$ 86	$ 8,893
Non-cash transactions:		
Deferred stock compensation (reversal)	$ (1,739)	$ 11,519
Acquisition of intangible asset under patent cross license and settlement agreement	$ 5,154	$ --

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, 2002 and for the three and six months ended June 30, 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. This financial data should also be read in conjunction with the Company's critical accounting policies included in Management's Discussion and Analysis of Financial Condition and Results of Operations 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 (loss) per share is as follows (in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	**2001**	**2002**	**2001**
Weighted average common shares outstanding	92,984	91,888	93,045	91,412
Dilutive effect of stock options outstanding using the treasury stock method	3,303	--	--	6,776
Shares used in computing diluted net income per share	96,287	91,888	93,045	98,188

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses accounting for restructuring and similar costs. SFAS 146 supersedes previous accounting guidance, principally Emerging Issues Task Force ("EITF") Issue No. 94-3. The Company will adopt the provisions of SFAS 146 for restructuring activities initiated after December 31, 2002. SFAS 146 requires that the liability for costs associated with an exit or disposal activity be recognized when the liability is incurred. Under EITF 94-3, a liability for an exit cost was recognized at the date of the Company's commitment to an exit plan. SFAS 146 also establishes that the liability should initially be measured and recorded at fair value. Accordingly, SFAS 146 may affect the timing of recognizing future restructuring costs as well as the amounts recognized.

3. INVENTORIES

Inventories consist of the following (in thousands):

	June 30, 2002	December 31, 2001
Finished goods	$ 22,741	$ 16,812
Work in process	19,712	16,506
Raw materials	1,640	2,076
	$ 44,093	$ 35,394

4. BORROWING ARRANGEMENTS

Borrowing agreements consisted of $5 million under a revolving line of credit. There were no borrowings under this agreement as of June 30, 2002. The revolving line of credit was scheduled to expire on June 30, 2002 and has been renewed on a month-to-month basis until terminated by either party upon 30 days notice. Borrowings under the revolving line of credit bear interest rates of, at the Company's election, the prime rate (4.75% at June 30, 2002), or the bank's revolving offshore rate, which approximates LIBOR (1.86% at June 30, 2002) plus 2.0%. In addition the Company had a $10 million non-revolving line of credit agreement which expired on June 30, 2002 and has not been renewed. 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 June 30, 2002.

As of June 30, 2002, the Company had $2.7 million outstanding under term notes borrowed under previously expired borrowing arrangements.

5. SIGNIFICANT CUSTOMERS

During the six months ended June 30, 2002, one customer, an Asian based stocking representative, accounted for $14.4 million (13.9%) of net revenues, but no direct O.E.M. customer accounted for more than 10% of net revenues. During the six months ended June 30, 2001, one customer, a North American distributor, accounted for $14.7 million (11.7%) of net revenues, but no direct O.E.M. customer accounted for more than 10% of net revenues.

6. 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 income of $269,000 and a net loss of $3.7 million for the three and six months ended June 30, 2002, respectively, and 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.

7. 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,	
	2002	**2001**	**2002**	**2001**
Net Revenues:				
Standard Products	$ 49,376	$ 40,779	$ 92,408	$ 103,906
Custom and Foundry Products	5,987	9,995	11,280	21,819
Total net revenues	$ 55,363	$ 50,774	$ 103,688	$ 125,725
As a Percentage of Total Net Revenues:				
Standard Products	89%	80%	89%	83%
Custom and Foundry Products	11%	20%	11%	17%
Total net revenues	100%	100%	100%	100%

8. 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 infringed five National Semiconductor patents. The complaint in the lawsuit sought unspecified compensatory damages for infringement, and treble damages as well as permanent injunctive relief against further infringement of the National patents at issue. On May 23, 2002 the Company entered into a Patent Cross License and Settlement Agreement with National which resolved all outstanding patent disputes between the companies. The Court subsequently dismissed the lawsuit (see Note 9).

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. On January 11, 2002 the Company filed a Petition for Rehearing En Banc with the Court of Appeal, which was subsequently denied. On July 3, 2002, the Company filed a Petition for Writ of Certiorari with the Supreme Court of the Unites States. Linear’s opposition to the Petition is due on September 6, 2002. The Company intends to continue to vigorously defend itself against the claims set forth in the lawsuit.

On May 23, 2002, the Company filed a complaint against Nortel Networks (“Nortel”) entitled Micrel, Incorporated v. Nortel Networks Corporation, in the Superior Court of the State of California, alleging various causes of action relating to breach of a relationship surrounding the sale of certain custom products by Micrel to Nortel. In this lawsuit, Micrel is alleging that Nortel reneged on its obligation to purchase substantial quantities of a custom product from Micrel, leaving Micrel with excess inventory, which was written down to fair market value in 2000. The complaint seeks compensatory damages, attorneys' fees and costs. On July 11, 2002, Nortel filed for removal of the case to the United States District Court in San Jose, which removal was approved. Nortel filed a Motion to Dismiss on August 6, 2002. The Company's response to this motion is due on August 26, 2002. The Court has scheduled a Case Management Conference for November 18, 2002.

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.

9. PATENT CROSS LICENSE AND SETTLEMENT AGREEMENT

On May 23, 2002 the Company entered into a Patent Cross License and Settlement Agreement with National Semiconductor which settled all outstanding patent disputes between the companies and cross licensed the entire patent portfolio of each company. Some of the National patents within certain field of use areas are licensed for the life of the patents, all other patents of both companies are licensed through May 22, 2009. Under the terms of the agreement Micrel agreed to pay National $9.0 million of which $3.0 million was paid on May 23, 2002 and the remaining $6.0 million balance will be paid in $2.0 million annual installments over the next three years.

Based on the estimated historical and future benefits of the Patent Cross License and Settlement Agreement, the Company has allocated the present value of the payments as follows (in thousands):

Settlement of patent disputes	$ 947
Patent license	7,207
Present value of payments	$ 8,154

The $947,000 valuation of the settlement of patent disputes has been expensed to other income (expense), net in the current period. The patent license valuation of $7.2 million has been recorded as an intangible asset and will be amortized over a 7 year period using straight-line basis amortization.

10. SUBSEQUENT EVENT

On July 10, 2002 the Company completed the purchase of a 57,000 square foot facility and an adjacent 63,000 square foot facility, located in San Jose, California, for $18.0 million in cash. The Company previously leased these same facilities, which house the majority of the Company's manufacturing operations.

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 three and six months ended June 30, 2002 as compared to 80% and 83% 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.

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,	
	2002	**2001**	**2002**	**2001**
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of revenues	61.7	61.5	62.5	53.3
Gross profit	38.3	38.5	37.5	46.7
Operating expenses:				
Research and development	23.5	24.4	25.4	20.3
Selling, general and administrative	16.0	14.9	16.3	15.1
Amortization of deferred stock compensation	4.4	4.4	4.9	3.4
Non-recurring acquisition expenses	--	17.6	--	7.1
Total operating expenses	43.9	61.3	46.6	45.9
Income(loss) from operations	(5.6)	(22.8)	(9.1)	0.8
Other income, net	(0.9)	2.8	0.6	2.5
Income(loss) before income taxes	(6.5)	(20.0)	(8.5)	3.3
Provision (benefit) for income taxes	(7.0)	(3.0)	(4.9)	2.5
Net income(loss)	0.5%	(17.0)%	(3.6)%	0.8%

Net Revenues. For the three months ended June 30, 2002, net revenues increased 9% to $55.4 million from $50.8 million for the same period in the prior year. This increase was due to increased standard products revenues which were partially offset by lower custom and foundry products revenues. For the six months ended June 30, 2002, net revenues decreased 18% to $103.7 million from $125.7 million for the same period in the prior year. This decrease was due to decreased standard products revenues combined with lower custom and foundry products revenues. The Company derives a substantial portion of its net revenues from standard products. Standard products sales represented 89% of net revenues for the three and six months ended June 30, 2002, as compared to 80% and 83%, respectively, for the similar periods in the prior year. For the three months ended June 30, 2002, standard products revenues increased 21% to $49.4 million from $40.8 million for the same period in the prior year. Such increases resulted from increased unit shipments of computer, industrial, Ethernet communications and telecommunications products, which were partially offset by decreased unit shipments of high bandwidth communications products combined with decreased average selling prices across all product lines. Sales of standard products by the Company during the three months ended June 30, 2002 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. For the six months ended June 30, 2002, standard products revenues decreased 11% to $92.4 million from $103.9 million for the same period in the prior year. Such decreases resulted primarily from decreased unit shipments of high bandwidth communications and telecommunications products combined with decreased average selling prices across all product lines, which were partially offset by increased unit shipments of Ethernet communications and computer products. For the three months ended June 30, 2002, custom and foundry products revenues decreased 40% to $6.0 million representing 11% of net revenues from $10.0 million or 20% of net revenues for the same period in the prior year. For the six months ended June 30, 2002, custom and foundry products revenues decreased 48% to $11.3 million representing 11% of net revenues from $21.8 million or 17% of net revenues for the same period in the prior year. Such decreases for the three and six months ended June 30, 2002 were primarily due 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.

The short lead time environment has continued from the middle of 2001 through the end of the second quarter of 2002. Customers perceive that semiconductor components are readily available and continue to order only for their short-term needs. New order rates have improved in the first and second quarters of 2002 compared to the fourth quarter of 2001, however there is not sufficient backlog for the Company to predict future revenue levels with certainty. 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 61% of net revenues for the quarters ended June 30, 2002 and 2001, respectively. On a dollar basis, international sales increased 24% to $38.5 million for the quarter ended June 30, 2002 from $31.0 million for the comparable period in 2001. For the six months ended June 30, 2002 and 2001, international sales represented 70% and 55% of net revenues, respectively. On a dollar basis, international sales increased 5% to $72.4 million for the six months ended June 30, 2002 from $68.8 million for the comparable period in 2001. The dollar basis increase in international sales for the three and six months ended June 30, 2002 resulted primarily from increased shipments of personal computer and Ethernet communications products, primarily in Asia, offset in part by decreased shipments of high bandwidth communications products, primarily in Europe. The weak economic conditions in North America and Europe coupled with reduced demand from customers serving the communications infrastructure market has resulted in a revenue shift to Asian based customers that serve more consumer related end-markets. The consumer related end-market tends to be more price competitive than the communications end-market.

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 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 was 38% and 39% for the three months ended June 30, 2002 and 2001, respectively. For the six months ended June 30, 2002, gross margin decreased to 37% from 47% for the comparable period in the prior year. The decrease in gross margin resulted primarily from decreased capacity utilization, a greater mix of lower margin products and decreased average selling prices as compared to the same periods in 2001. The Company believes pricing pressure will continue to effect gross profit until order lead times extend significantly beyond current levels.

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% for the quarters ended June 30, 2002 and 2001. On a dollar basis, research and development expenses increased $613,000 or 5% to $13.0 million for the quarter ended June 30, 2002 from $12.4 million for the comparable period in 2001. For the six months ended June 30, 2002 and 2001, research and development expenses represented 25% and 20% of net revenues, respectively. On a dollar basis, research and development expenses increased $874,000 or 3% to $26.4 million for the six months ended June 30, 2002 from $25.5 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 16% and 15% for the quarters ended June 30, 2002 and 2001, respectively. On a dollar basis, selling, general and administrative expenses increased $1.3 million or 17% to $8.9 million for the quarter ended June 30, 2002 from $7.6 million for the comparable period in 2001. The dollar increases were principally attributable to increased legal costs, which were partially offset by decreased staffing expenses. For the six months ended June 30, 2002 and 2001, selling, general and administrative expenses represented 16% and 15% of net revenues, respectively. On a dollar basis, selling, general and administrative expenses decreased $2.2 million or 12% to $16.9 million for the six months ended June 30, 2002 from $19.1 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 June 30, 2002 total amortization of deferred stock compensation was $3.2 million of which $784,000 was included in cost of revenues and $2.5 million was included in amortization of deferred stock compensation. 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 six months ended June 30 2002 total amortization of deferred stock compensation was $6.6 million of which $1.6 million was included in cost of revenues and $5.0 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.

The Company does not presently intend to change its accounting practices with respect to accounting for stock options unless new rules are established by the FASB, SEC or other regulatory body. If the Company were to expense stock options pursuant to SFAS No. 123 "Accounting for Stock-Based Compensation", the incremental expense would be somewhat mitigated to the extent that stock option compensation is already being recognized in the Company's financial statements pursuant to APB 25, as described above. The Company's Annual Report on Form 10-K for the year ended December 31, 2001 discloses the proforma effect on net income if the Company were recording stock compensation pursuant to SFAS No. 123.

Other Income (Expense), Net. Other income (expense), net reflects interest income from investments in short-term, investment-grade, securities offset by interest expense incurred on term notes, combined with other non-operating income or expenses. Other income (expense), net decreased $1.9 million to a net expense of $476,000 for the quarter ended June 30, 2002 from a net income of $1.4 million for the comparable period in 2001. The decrease was primarily due to decreased rates of return on short-term investments combined with a non-recurring expense of $947,000 for the settlement of a patent dispute (see Note 9 of Notes to Condensed Consolidated Financial Statements). For the six months ended June 30, 2002, other income (expense), net decreased $2.6 million to $588,000 from $3.2 million for the comparable period in 2001. The decrease was primarily due to decreased rates of return on short-term investments combined with a non-recurring expense of $947,000 for the settlement of a patent dispute, 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 three and six months ended June 30, 2002, the provision for income taxes was a benefit of $3.9 million and $5.1 million, respectively. The income tax amounts reflect the Company's revised year 2002 estimated annual effective tax rate of 58% of income (loss) before tax, compared to 70% of income (loss) before tax recorded for the same period in 2001. During the quarter ended June 30, 2002 the Company revised its 2002 estimated annual effective tax rate to 58% from 24% of income (loss) before tax, primarily due to the impact of state research and development credits in relation to revised estimated annual income (loss) before tax. Included in the $3.9 million benefit for income taxes for the three months ended June 30, 2002 is a benefit of $1.8 million resulting from the year-to-date effect of the revision to the annual effective tax rate. The estimated provision for income taxes differs from taxes computed at the federal statutory rate primarily due to the effect of state income taxes, 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 June 30, 2002 consisted of cash and short-term investments of $119 million and bank borrowing arrangements. Borrowing agreements consisted of $5 million under a revolving line of credit. There were no borrowings under this agreement as of June 30, 2002. The revolving line of credit was scheduled to expire on June 30, 2002 and has been renewed on a month-to-month basis until terminated by either party upon 30 days notice. Borrowings under the revolving line of credit bear interest rates of, at the Company's election, the prime rate (4.75% at June 30, 2002), or the bank's revolving offshore rate, which approximates LIBOR (1.86% at June 30, 2002) plus 2.0%. In addition the Company had a $10 million non-revolving line of credit agreement which expired on June 30, 2002 and has not been renewed. 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 June 30, 2002.

As of June 30, 2002, the Company had $2.7 million outstanding under term notes borrowed under previously expired borrowing arrangements.

The Company's working capital decreased by $4.0 million to $192.9 million as of June 30, 2002 from $196.9 million as of December 31, 2001. The decrease was primarily attributable to a $14.7 million decrease in cash and short-term investments combined with a $4.0 million decrease in other current assets, which were partially offset by a $8.7 million increase in inventories, a $2.5 million increase in deferred income taxes and a $1.6 million increase in accounts receivable combined with a $1.9 million decrease in total current liabilities.

The Company's cash flows from operating activities were $8.0 million for the six months ended June 30, 2002 as compared to $40.0 million for the same period in the prior year. This cash flow decrease resulted primarily from an increase in accounts receivables balances of $1.6 million for the six months ended June 30, 2002 as compared to a decrease of $33.0 million for the same period in 2001, which resulted from declining revenue levels in 2001. The cash flows from operating activities generated by the Company in the six months ended June 30, 2002 were primarily attributable to a net loss of $3.7 million plus additions for non-cash activities of $20.7 million which were partially offset by a $9.1 million use in cash from changes in current assets and liabilities. Cash flow used by changes in current assets and liabilities consisted of an increase in inventories of $8.7 million, an increase in accounts receivables of $1.6 million combined with a decrease in deferred income on shipments to distributors of $2.0 million and a decrease in other current liabilities of $2.3 million, which were partially offset by a decrease in other current assets of $4.0 million and an increase in accounts payable of $2.4 million.

The Company's investing activities during the six months ended June 30, 2002 used cash of $4.7 million as compared to $3.8 million of cash used during the comparable period in the prior year. This increase in cash used resulted primarily from a $17.1 million decrease in net sales of short-term investments combined with the purchase of $2.1 million in intangible assets, which were partially offset by a $18.2 million decrease in net purchases of property, plant and equipment. Cash used by investing activities during the six months ended June 30, 2002 resulted from the purchase of $2.1 million in intangible assets and $5.7 million in net purchases of property, plant and equipment, which was partially offset by $3.0 million in net sales of short-term investments.

The Company's financing activities during the six months ended June 30, 2002 used cash of $14.9 million as compared to cash provided of $2.1 million during the comparable period in the prior year. Cash used by financing activities during the six months ended June 30, 2002 was the result of $18.3 million to repurchase 916,100 shares of common stock and $2.2 million in repayments of long-term debt, which was partially offset by proceeds from the issuance of common stock through the employee stock transactions of $5.6 million.

Subsequent to June 30, 2002, the Company completed the purchased of a 57,000 square foot facility and an adjacent 63,000 square foot facility, located in San Jose, California, for $18.0 million in cash. The Company previously leased these same facilities, which house the majority of the Company's manufacturing operations.

The Company currently estimates its capital equipment purchases, which exclude the above mentioned $18 million purchase of land and buildings, to be approximately $15 million for year 2002, of which $5.7 million was expended in the first six months. The Company expects to purchase primarily additional research and development, wafer and test manufacturing equipment and building 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 facility.

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 uncertain rate of growth in the global economy.

Although the global economy appears to have grown in the first half of 2002 after shrinking for a period in 2001, recent events have cast doubt on the sustainability of future economic growth. Consumer confidence is waning due in part to the recent sharp decline in global equity markets. Reduced corporate profits and weak capital spending, especially for technology related end markets that the Company serves such as the high-speed communications, enterprise computing and telecommunications markets, continue to dampen demand for the Company’s products. If economic conditions in the global economy 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 uncertain supply of energy in California

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 end customer 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 negatively effect 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. 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 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. Both the semiconductor industry and the Company have experienced significant price erosion since the beginning of 2001. If this price erosion continues it will have the effect of reducing revenue levels and gross margins in future periods.

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'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 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, while diversified, is 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 that 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 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 that 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 acquisitions in the past and may make acquisitions in the future. The risks involved with 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 an acquisition could result in the cancellation, termination or non-renewal of arrangements with the acquired company by suppliers, distributors or customers, or the termination of negotiations or delays in ordering by prospective customers 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 the acquired company 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 the acquired company and Micrel after the acquisition.

In addition, some of the past 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 six months ended June 30, 2002.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The information included in Note 8 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 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders (the "Annual Meeting") was held on May 23, 2002 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 four members of the Board of Directors, (b) transacting such other business as may properly come before the Annual Meeting. The following proposal was voted upon and approved:

Proposal No. 1 - Election of four 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	87,535,154	513,138
Warren H. Muller	87,535,820	512,472
Larry L. Hansen	87,550,754	497,538
George Kelly	87,550,743	497,549

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.1 Patent Cross License Agreement between Micrel, Incorporated and National Semiconductor Corporation, dated May 23, 2002.

(b) Reports on Form 8-K. During the quarter ended June 30, 2002, the Company filed a Report on Form 8-K/A, dated April 1, 2002, restating its financial statements which were previously issued on Form 8-K dated October 3, 2001. Also during the quarter ended June 30, 2002, the Company filed a Report on Form 8-K, dated June 3, 2002, disclosing that Raymond D. Zinn, the Chairman of the Board, President and Chief Executive Officer of Micrel has entered into a trading plan in accordance with Rule 10b5-1 of the Securities Exchange Act of 1934.

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: August 14, 2002

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