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, 2003.

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 [ ]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act. Yes [X] No [ ]

As of April 30, 2003 there were 92,105,715 shares of common stock, no par value, outstanding.

MICREL, INCORPORATED
INDEX TO
REPORT ON FORM 10-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2003

ITEM 1. FINANCIAL STATEMENTS

MICREL, INCORPORATED

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

	March 31, 2003	December 31, 2002 [1]
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 123,900	$ 117,363
Accounts receivable, net	30,334	29,577
Inventories	38,496	39,531
Other current assets	3,742	2,675
Deferred income taxes	30,702	30,828
Total current assets	227,174	219,974
PROPERTY, PLANT AND EQUIPMENT, NET	91,226	92,318
DEFERRED INCOME TAXES	9,362	9,606
INTANGIBLE ASSETS, NET	7,665	8,387
OTHER ASSETS	395	390
TOTAL	$ 335,822	$ 330,675
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 13,160	$ 13,026
Taxes payable	3,509	3,405
Deferred income on shipments to distributors	11,689	9,832
Other current liabilities	13,013	10,645
Current portion of long-term debt	779	911
Total current liabilities	42,150	37,819
LONG-TERM DEBT	10,807	10,983
OTHER LONG-TERM OBLIGATIONS	7,848	8,254
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: 2003 - 92,089,079 shares; 2002 - 92,006,571 shares	159,827	160,889
Deferred stock compensation	(7,684)	(9,971)
Accumulated other comprehensive loss	(26)	(25)
Retained earnings	122,900	122,726
Total shareholders' equity	275,017	273,619
TOTAL	$ 335,822	$ 330,675

(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, 2002.

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, 2003	Three Months Ended March 31, 2002
NET REVENUES	$ 50,955	$ 48,325
COST OF REVENUES*	30,411	30,677
GROSS PROFIT	20,544	17,648
OPERATING EXPENSES:		
Research and development	12,689	13,362
Selling, general and administrative	6,992	7,995
Amortization of deferred stock compensation*	766	2,593
Total operating expenses	20,447	23,950
INCOME (LOSS) FROM OPERATIONS	97	(6,302)
OTHER INCOME, NET	166	1,064
INCOME (LOSS) BEFORE INCOME TAXES	263	(5,238)
PROVISION (BENEFIT) FOR INCOME TAXES	89	(1,257)
NET INCOME (LOSS)	$ 174	$ (3,981)
NET INCOME (LOSS) PER SHARE:		
Basic	$ 0.00	$ (0.04)
Diluted	$ 0.00	$ (0.04)
SHARES USED IN COMPUTING PER SHARE AMOUNTS:		
Basic	92,039	93,180
Diluted	92,739	93,180
* Amortization of deferred stock compensation related to:		
Cost of revenues	$ 301	$ 768
Research and development	$ 509	$ 1,360
Selling, general and administrative	257	1,233
Total	$ 766	$ 2,593

See Notes to Condensed Consolidated Financial Statements.

MICREL, INCORPORATED

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(In thousands)	Three Months Ended March 31, 2003	2002
NET CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Net income (loss)	$ 174	$ (3,981)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	7,593	8,202
Stock based compensation	1,067	3,361
Loss on disposal of assets	--	1
Deferred rent	9	21
Deferred income taxes	370	(1,685)
Changes in operating assets and liabilities:		
Accounts receivable	(757)	(2,815)
Inventories	1,035	(3,153)
Prepaid expenses and other assets	(1,072)	4,940
Accounts payable	134	1,438
Income taxes	(274)	--
Other accrued liabilities	1,953	876
Deferred income on shipments to distributors	1,857	(1,489)
Net cash provided by operating activities	12,089	5,716
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(5,779)	(2,445)
Proceeds from sales and maturities of short-term investments	--	3,007
Net cash provided (used) by investing activities	(5,779)	562
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of long-term debt	(308)	(1,154)
Proceeds from the issuance of common stock, net	535	3,122
Repurchase of common stock	--	(5,369)
Net cash provided (used) by financing activities	227	(3,401)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,537	2,877
CASH AND CASH EQUIVALENTS - Beginning of period	117,363	130,406
CASH AND CASH EQUIVALENTS - End of period	$ 123,900	$ 133,283
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 194	$ 62
Income taxes	$ --	$ 68
Non-cash transactions:		
Deferred stock compensation (reversal)	$ (1,219)	$ (972)

See Notes to Condensed Consolidated Financial Statements.

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, 2003 and for the three months ended March 31, 2003 and 2002 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, 2002. 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, 2002.

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. The computation of diluted net loss per share, in 2002, excludes common equivalent shares since they are anti-dilutive in a loss period. Reconciliation of weighted average shares used in computing earnings per share is as follows (in thousands):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Weighted average common shares outstanding	92,039	93,180
Dilutive effect of stock options outstanding using the treasury stock method	700	--
Shares used in computing diluted net income (loss) per share	92,739	93,180

For the three months ended March 31, 2003 and 2002, 4.2 million and 13.7 million stock options, respectively, have been excluded from the weighted-average number of common shares outstanding for the diluted net income (loss) per share computations as they were anti-dilutive.

Stock Based Awards - The Company accounts for stock-based awards to employees using the intrinsic value method in accordance with Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees". Deferred stock compensation balances are recorded as a contra-equity amount and amortized as a charge to operating results over the applicable vesting periods. As of March 31, 2003 total unamortized stock compensation was $7.7 million.

SFAS No. 123, "Accounting for Stock-Based Compensation," requires the disclosure of pro forma net income and earnings per share had the Company applied the fair value method. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from the Company's stock option awards. These models also require subjective assumptions, including future stock volatility and expected time to exercise, which greatly affect the calculated values. The Company's calculations for the fair value of stock options were made using the Black-Scholes option pricing model with the following weighted average assumptions for the three months ended March 31, 2003 and 2002, respectively: expected life, 60 months; stock volatility, 85.8% and 86.1%; risk free interest rates, 2.92% and 2.94%; and no dividends during the expected term. The Company's calculations are based on a multiple option valuation approach and forfeitures are recognized as they occur.

The Company's calculations for the fair value of stock issued under the employee stock purchase plan were made using the Black-Scholes option pricing model with the following weighted average assumptions: expected life, 6 months; stock volatility, 86.1% in 2003 and 2002; risk free interest rates, 1.92% in 2003 and 2.94% in 2002; and no dividends during the term.

SFAS No. 148 amends SFAS No. 123 in December 2002 to require that disclosures of the pro forma effect of using the fair value method of accounting for stock-based employee compensation be displayed more prominently and in a tabular format. The following table illustrates the effect on the Company's net income (loss) and net income (loss) per share if it had recorded compensation costs based on the estimated grant date fair value as defined by SFAS No. 123 for all granted stock-based awards. (in thousands, except per share amounts):

	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net income (loss) as reported	$ 174	$ (3,981)
Add: stock-based employee compensation expense included in reported net income (loss), net of tax effects	649	2,043
Deduct: stock-based employee compensation expense determined under fair value based method, net of tax effects	(3,351)	(6,022)
Pro forma net income (loss)	$ (2,528)	$ (7,960)
Net income (loss) per share as reported:		
Basic	$ 0.00	$ (0.04)
Diluted	$ 0.00	$ (0.04)
Pro forma net income (loss) per share:		
Basic	$ (0.03)	$ (0.09)
Diluted	$ (0.03)	$ (0.09)

2. RECENTLY ISSUED ACCOUNTING STANDARDS

In January 2003, the Financial Accounting Standards Board ("FASB" or the "Board") issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. Management is currently evaluating the effect of this statement on the Company's results of operations and financial position. FIN 46 is effective for public entities for the first interim period beginning after June 15, 2003 except for variable interest entities created after January 31, 2003 where it is effective immediately. The Company does not currently anticipate this statement to have any effect on its financial statements.

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables." EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company does not believe the adoption of EITF 00-21 will have a material impact on its financial position or results of operations.

In November 2002, the Board issued FASB Interpretation No. 45 ("FIN 45" or the "Interpretation"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies ("FAS 5"), relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 is effective for guarantees entered into after December 31, 2002. The adoption of this standard did not have a material impact on the Company's financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections" ("SFAS 145"). Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. The Company does not currently anticipate this statement to have any effect on it's financial statements.

3. INVENTORIES

Inventories consist of the following (in thousands):

	March 31, 2003	December 31, 2002
Finished goods	$ 12,007	$ 15,597
Work in process	24,935	22,523
Raw materials	1,554	1,411
	$ 38,496	$ 39,531

4. BORROWING ARRANGEMENTS

Borrowing agreements consisted of $5.0 million revolving line of credit from a commercial bank. There were no borrowings under the revolving line of credit agreement at March 31, 2003. The revolving line of credit agreement expires on June 30, 2003. Borrowings under the revolving line of credit bear interest rates of, at the Company's election, the prime rate (4.25% at March 31, 2003), or the bank's revolving offshore rate, which approximates LIBOR (1.28% at March 31, 2003) plus 2.0%. The agreement contains certain restrictive covenants that include a restriction on the declaration and payment of dividends without the lender's consent. The Company was in compliance with all such covenants at March 31, 2003.

As of March 31, 2003, the Company had $11.6 million under term notes outstanding.

5. SIGNIFICANT CUSTOMERS

During the three months ended March 31, 2003, two customers, a world wide distributor and an Asian based stocking representative, accounted for $8.0 million (16%) and $5.1 million (10%) of net revenues, respectively. No direct O.E.M. customer accounted for more than 10% of net revenues. During the three months ended March 31, 2002, one customer, an Asian based stocking representative, accounted for $6.5 million (13.5%) of net revenues.

6. COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss), which was comprised of the Company's net income (loss) for the periods and changes in unrealized gains or losses on investments, was a net income of $173,000 and a net loss of $4.0 million for the three months ended March 31, 2003 and 2002, respectively.

7. SEGMENT REPORTING

The Company follows the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. SFAS No. 131 establishes standards for reporting information regarding operating segments in annual financial statements and requires selected information for those segments to be presented in interim financial reports issued to stockholders. SFAS No. 131 also establishes standards for related disclosures about products and services and geographic areas. Operating segments are identified as components of an enterprise about which separate discrete financial information is available for evaluation by the chief operating decision maker. The Company operates in two reportable segments: standard products and custom and foundry products. The chief operating decision maker evaluates segment performance based on revenue. Accordingly, all expenses are considered corporate level activities and are not allocated to segments. Therefore, it is not practical to show profit or loss by operating segments. Also, the chief operating decision maker does not assign assets to these segments. Consequently, it is not practical to show assets by operating segments.

Net Revenues by Segment

(dollars in thousands)	Three Months Ended March 31, 2003	Three Months Ended March 31, 2002
Net Revenues:		
Standard Products	$ 45,254	$ 43,032
Custom and Foundry Products	5,701	5,293
Total net revenues	$ 50,955	$ 48,325
As a Percentage of Total Net Revenues:		
Standard Products	89%	89%
Custom and Foundry Products	11	11
Total net revenues	100%	100%

8. LITIGATION AND OTHER CONTINGENCIES

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 hearing phase.

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 on a motion 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 United States. Linear filed an opposition to the Petition on September 6, 2002. The Company filed a reply to the opposition on September 19, 2002. The Company is currently awaiting the Supreme Court's decision.

On December 27, 2002, the Company filed a complaint against TRW, Inc. ("TRW") entitled Micrel, Incorporated v. TRW, Inc., dba TRW Automotive Electronics Group, in the United States District Court, Northern District of Ohio, Eastern Division, alleging various causes of action relating to breach of a relationship surrounding the development of certain custom products by Micrel for TRW. In this lawsuit, Micrel is alleging that TRW breached various agreements to assist in Micrel's development of, and to purchase, certain Application Specific Integrated Circuits. The complaint seeks compensatory damages, attorneys' fees and costs of suit. On February 24, 2003, TRW filed an answer to the Company's complaint and a counterclaim alleging various causes of action relating to breach of the above-mentioned relationship concerning ASIC development. The case is currently in the motion and discovery phase prior to an agreed-upon mediation scheduled to take place in the summer of 2003.

On April 21, 2003, the Company filed a complaint against its former principal accountants Deloitte & Touche LLP ("Deloitte") entitled Micrel, Incorporated v. Deloitte & Touche LLP in the Superior Court of the State of California, County of Santa Clara, alleging various causes of action relating to certain professional advice received by Micrel from Deloitte. A summary of the lawsuit can be found in the Company's Current Report on Form 8-K, dated April, 21, 2003.

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.

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, 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.

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.

9. STOCK REPURCHASE PROGRAM

In February 2002, the Company's Board of Directors announced a stock repurchase program under which the Company may purchase up to $20.0 million of its common stock. In July 2002, the Board of Directors approved an additional $20.0 million stock repurchase program by increasing the total authorized stock repurchase to $40.0 million of common stock in 2002. On February 24, 2003 the Board of Directors extended the authorization to repurchase shares of common stock through December 31, 2003, up to a maximum purchase amount of $40 million for the years 2002 and 2003, of which $10.9 million remains authorized for repurchases through December 31, 2003. Shares of common stock purchased pursuant to the repurchase program are cancelled upon repurchase, and are intended to offset dilution from the Company's stock option plans, employee stock purchase plans and 401(k). The Company did not repurchase any shares of its common stock during the quarter ended March 31, 2003.

10. STOCK OPTION EXCHANGE PROGRAM

On November 8, 2002 the Company filed a Schedule TO with the Securities and Exchange Commission in order to initiate an offer to its employees to exchange certain of their outstanding options for new options to be granted six months and two days after expiration of the exchange offer. The Company’s Directors, CEO and CFO are not eligible to participate in the stock option exchange program. This offer to exchange contemplates a grant of new options to eligible employees in a ratio equivalent to one new option granted for every two options elected for exchange and cancelled with respect to employees who currently hold the position of vice president or higher, and two new options granted for every three options elected for exchange and cancelled with respect to all other employees.

The replacement options will have an exercise price equal to the closing sales price of the Company's common stock as quoted on the Nasdaq National Market on the date preceding the replacement grant date. The only options eligible to be exchanged were those outstanding employee stock options with an exercise price of $13 or higher. Options to purchase 3,330,401 shares of the Company’s common stock were surrendered on December 11, 2002 and will be replaced with options to purchase approximately 2,131,675 shares on June 13, 2003 in this exchange offer.

11. CLOSURE OF WAFER FABRICATION FACILITY

In September 2002, the Company approved a plan to close its Santa Clara, CA wafer fabrication facility to reduce costs and improve operating efficiencies. Management believes that these actions are prudent given the current excess capacity levels within its wafer fabrication facilities combined with the uncertain demand in the high-speed communications market. Associated with the facility closure, the Company accrued $5.5 million in restructuring expenses which consisted of $1.0 million for equipment disposal costs and $4.5 million in net contractual building lease costs, excluding estimated sublease income, that will provide no future benefit. These restructuring costs are expected to be paid in cash over the remaining facility lease term, which expires in October 2006. Of the $5.5 million in accrued restructuring costs, $1.8 million has been classified as other current liabilities and the remaining $3.7 million has been classified as other long-term obligations as of March 31, 2003.

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. For each of the three months ended March 31, 2003 and 2002 the Company's standard products sales accounted for 89%, of the Company's net revenues. 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.

Critical Accounting Policies

The financial statements included in this Form 10-Q and discussed within this Management's Discussion and Analysis of Financial Condition and Results of Operations have been prepared in accordance with accounting principles generally accepted in the United States. Preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an on-going basis, management evaluates its estimates and judgements. Management bases its estimates and judgements on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a detailed discussion of the Company's significant accounting policies, see Note 1 of Notes to Consolidated Financial Statements in Item 14 of the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Revenue Recognition. Micrel generates revenue by selling products to original equipment manufacturers ("OEM"s), distributors and stocking representatives. Stocking representative firms may buy and stock the Company's products for resale or may act as the Company's sales representative in arranging for direct sales from the Company to an OEM customer. The Company's policy is to recognize revenue from sales to customers when the rights and risks of ownership have passed to the customer, when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed and determinable and collection of the resulting receivable is reasonably assured.

Micrel allows certain distributors, primarily located in North America and Europe, significant return rights and pricing adjustments subsequent to the initial product shipment. Micrel defers recognition of revenue and related cost of sales (in the balance sheet line item "deferred income on shipments to distributors") derived from sales to these distributors until they have resold the Company's products to their customers. Sales to OEM customers and stocking representatives, primarily located in Asia, which have limited return rights and pricing adjustments, are recognized upon shipment and a related returns allowance is established based upon historical return rates. Actual future returns could be different than the returns allowance established. The Company also maintains an allowance for doubtful accounts for estimated uncollectible accounts receivables. This estimate is based on an analysis of specific customer creditworthiness and historical bad debts experience. Actual future uncollectible amounts could exceed the doubtful accounts allowance established.

Inventory Valuation. Inventories are stated at the lower of cost (first-in, first-out method) or market. The Company has taken adjustments to write-down the cost of obsolete and excess inventory to the estimated market value based on historical and forecasted demand for its products. If actual future demand for the Company's products is less than currently forecasted, additional inventory adjustments may be required. Once a reserve is established, it is maintained until the product to which it relates is sold or otherwise disposed of. This treatment is in accordance with Accounting Research Bulletin 43 and Staff Accounting Bulletin 100 "Restructuring and Impairment Charges."

Income Taxes. As of March 31, 2003, the Company had net deferred tax assets of $40.1 million, resulting from temporary timing differences between book and tax valuation of assets and liabilities. The Company believes that future taxable income levels will be sufficient to realize the tax benefits of these deferred tax assets and has not established a valuation allowance.

Litigation. The semiconductor industry is characterized by frequent litigation regarding patent and other intellectual property rights. The Company is currently involved in such intellectual property litigation (see Note 8 of Notes to Condensed Consolidated Financial Statements) and has not accrued any liability for such litigation. The Company regularly evaluates current information available to determine whether such accruals should be made. An estimated liability would be accrued when it is determined to be probable that a liability has been incurred and the amount of loss can be reasonably estimated. If the Company were to determine that such a liability was probable and could be reasonably estimated, the adjustment would be charged to income in the period such determination was made.

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, 2003	Three Months Ended March 31, 2002
Net revenues	100.0%	100.0%
Cost of revenues	59.7	63.5
Gross profit	40.3	36.5
Operating expenses:		
Research and development	24.9	27.6
Selling, general and administrative	13.7	16.5
Amortization of deferred stock compensation	1.5	5.4
Total operating expenses	40.1	49.5
Income (loss) from operations	0.2	(13.0)
Other income, net	0.3	2.2
Income (loss) before income taxes	0.5	(10.8)
Provision (benefit) for income taxes	0.2	(2.6)
Net income (loss)	0.3%	(8.2)%

Net Revenues. For the three months ended March 31, 2003, net revenues increased 5% to $51.0 million from $48.3 million for the same period in the prior year. This increase was primarily due to increased standard products revenues and to a lessor extent, increased custom and foundry products revenues. The Company derives a substantial portion of its net revenues from standard products, which represented 89% of net revenues for each of the three months ended March 31, 2003 and 2002.

For the three months ended March 31, 2003, standard products revenues increased 5% to $45.3 million from $43.0 million for the same period in the prior year. Such increases resulted from increased unit shipments, which were partially offset by decreased average selling prices. Sales of standard products by the Company during the three months ended March 31, 2003 were led by low dropout regulators, Ethernet communications and computer peripheral products. Such products were sold primarily to manufacturers within the computer, industrial, telecommunications and network communications markets.

For the three months ended March 31, 2003, custom and foundry products revenues increased 8% to $5.7 million representing 11% of net revenues from $5.3 million or 11% of net revenues for the same period in the prior year. Such increases were due to increased 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. Although it is generally believed that industry wide channel inventories have decreased substantially since 2001, the short lead time environment has continued from the middle of 2001 through the end of the first quarter of 2003 as a result of underutilization of manufacturing capacity and relatively high levels of work-in-process inventories within the semiconductor industry. Customers perceive that semiconductor components are readily available and continue to order only for their short-term needs, resulting in order backlog levels which are not sufficient 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. During the three months ended March 31, 2003, 58% of the Company's shipments resulted from turns-fill orders. The Company believes the current high turns-fill requirements and continuing pricing pressure will continue until the semiconductor industry recovers from the current downturn. The Company believes the key metrics that will evidence such an industry recovery are: a cumulative annual growth rate in worldwide semiconductor shipments of 14% or greater, backlog levels at or above 70% of the following quarters shipments, manufacturing capacity utilization levels at or above 80% of equipped capacity, a growth in aggregate channel inventories for a least two consecutive quarters and an increase in average selling prices of at least 20% from the downturn low point. 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 68% and 70% of net revenues for the three months ended March 31, 2003 and 2002, respectively. On a dollar basis, international sales increased 3% to $34.8 million for the three months ended March 31, 2003 from $33.9 million for the comparable period in 2002. This increase in international sales resulted primarily from increased shipments of telecommunications and personal computer products, primarily in Asia and to a lessor extent Europe, offset in part by decreased shipments 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.

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. For the three months ended March 31, 2003 the Company's gross margin increased to 40% from 37% for the comparable period in 2002. This increase in gross margin resulted primarily from a greater sales mix of higher margin products combined with decreased wafer fabrication costs resulting from the Company's wafer fabrication consolidation project (see Note 11 of Notes to Condensed Consolidated Financial Statements) and lower costs for external assembly and test manufacturing services, which were partially offset by decreased average selling prices as compared to the same period in 2002. The Company believes pricing pressure will continue to affect gross profit until industry manufacturing capacity utilization levels increase and order lead times extend significantly beyond current levels.

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 25% and 28% for the three months ended March 31, 2003 and 2002, respectively. On a dollar basis, research and development expenses decreased $673,000 or 5% to $12.7 million for the three months ended March 31, 2003 from $13.4 million for the comparable period in 2002. The dollar decreases were primarily due to decreased prototype fabrication costs combined with reduced staffing 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 14% and 17% for the three months ended March 31, 2003 and 2002, respectively. On a dollar basis, selling, general and administrative expenses decreased $1.0 million or 13% to $7.0 million for the three months ended March 31, 2003 from $8.0 million for the comparable period in 2002. The dollar decreases were principally attributable to decreased outside legal costs combined with decreased advertising expenses.

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". Certain Company practices in effect prior to January 2002 related to employee stock option pricing resulted in stock compensation expense under APB 25. For the three months ended March 31, 2003 total amortization of deferred stock compensation was $1.1 million of which $301,000 was included in cost of revenues and $766,000 was included in amortization of deferred stock compensation. For the three months 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. As of March 31, 2003 total unamortized stock compensation was $7.7 million.

Other Income, Net. Other income, net reflects interest income from investments in short-term, investment-grade, securities and money market funds offset by interest expense incurred on term notes, combined with other non-operating income or expenses. Other income, net decreased $898,000 to $166,000 for the three months ended March 31, 2003 from $1.1 million for the comparable period in 2002. The decrease was primarily due to decreased rates of return on cash, cash equivalents and short-term investments combined with increased interest expense due to an increase in average debt and the inclusion of $490,000 in non-recurring other income in the prior year period.

Provision (Benefit) for Income Taxes. For the three months ended March 31, 2003 and 2002, the provision (benefit) for income taxes was 34% of pretax income and 24% of pretax loss, respectively. The income tax provision (benefit) for such interim periods reflects the Company’s estimated annual income tax rate. The estimated provision (benefit) for income taxes differs from taxes computed at the federal statutory rate primarily due to the effect of state income taxes, 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, 2003 consisted of cash and cash equivalents of $123.9 million and bank borrowing arrangements. Borrowing agreements consisted of $5.0 million under a revolving line of credit. There were no borrowings under this agreement as of March 31, 2003 (for a discussion of borrowing arrangements, see Note 4 of Notes to Condensed Consolidated Financial Statements).

The Company's working capital increased by $2.8 million to $185.0 million as of March 31, 2003 from $182.2 million as of December 31, 2002. The increase was primarily attributable to a $6.5 million increase in cash and cash equivalents which was partially offset by a $4.3 million increase in current liabilities.

The Company's cash flows from operating activities were $12.1 million for the three months ended March 31, 2003 as compared to $5.7 million for the same period in the prior year. This cash flow increase resulted primarily from an increase in net income adjusted for non-cash activities combined with an increase in current liabilities. The cash flows from operating activities generated by the Company in the three months ended March 31, 2003 were primarily attributable to a net income of $174,000 plus additions for non-cash activities of $9.0 million combined with a $3.7 million increase in current liabilities, which was partially offset by a $794,000 increase in current assets.

For the quarter ended March 31, 2002, the Company's cash flows from operating activities were $5.7 million and were primarily attributable to net income after adding back non-cash activities of $5.9 million 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 three months ended March 31, 2003 used cash of $5.8 million as compared to $562,000 of cash provided during the comparable period in the prior year. This increase in cash used resulted primarily from a $3.0 million decrease in net sales of short-term investments combined with a $3.3 million increase in net purchases of property, plant and equipment. Cash used by investing activities during the three months ended March 31, 2003 resulted from the purchase of $5.8 in net purchases of property, plant and equipment.

For the quarter ended March 31, 2002, the Company’s investing activities provided cash of $562,000 which 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.

The Company's financing activities during the three months ended March 31, 2003 provided cash of $227,000 as compared to cash used of $3.4 million during the comparable period in the prior year. This increase in cash provided resulted primarily from a $5.4 million decrease in the repurchase of common stock, which was partially offset by decreased proceeds from the issuance of common stock. Cash provided by financing activities during the three months ended March 31, 2003 was the result of $535,000 in proceeds from the issuance of common stock through employee stock transactions, which was partially offset by $308,000 in repayments of long-term debt.

For the quarter ended March 31, 2002, the Company's financing activities used cash of $3.4 million as a result of $5.4 million in repurchases 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 intends to purchase approximately $15 million to $25 million in capital equipment and improvements during 2003. The majority of the anticipated 2003 capital spending is related to equipment and building improvements associated with the consolidation of wafer fabrication operations in its San Jose facility and new production mask sets. The Company also expects to purchase additional research and development related software and equipment, and manufacturing equipment for product testing of new products. The Company is currently authorized by its Board of Directors to repurchase an additional $10.9 million of its common stock in 2003. The Company expects that its cash requirements through 2003 will be met by its cash from operations, existing cash balances and short-term investments, and its credit facility.

Recently Issued Accounting Standards

In January 2003, the Financial Accounting Standards Board ("FASB" or the "Board") issued Interpretation No. 46 ("FIN 46") "Consolidation of Variable Interest Entities." Until this interpretation, a company generally included another entity in its consolidated financial statements only if it controlled the entity through voting interests. FIN 46 requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or entitled to receive a majority of the entity's residual returns. Management is currently evaluating the effect of this statement on the Company's results of operations and financial position. FIN 46 is effective for public entities for the first interim period beginning after June 15, 2003 except for variable interest entities created after January 31, 2003 where it is effective immediately. The Company does not currently anticipate this statement to have any effect on its financial statements.

In November 2002, the Emerging Issues Task Force reached a consensus on Issue No. 00-21 ("EITF 00-21"), "Revenue Arrangements with Multiple Deliverables." EITF 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF 00-21 will apply to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. The Company does not believe the adoption of EITF 00-21 will have a material impact on its financial position or results of operations.

In November 2002, the Board issued FASB Interpretation No. 45 ("FIN 45" or the "Interpretation"), Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an interpretation of FASB Statements No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34. FIN 45 clarifies the requirements of FASB Statement No. 5, Accounting for Contingencies ("FAS 5"), relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN 45 is effective for guarantees entered into after December 31, 2002. The adoption of this standard did not have a material impact on the Company's financial statements.

In May 2002, the FASB issued SFAS No. 145, "Rescission of SFAS Nos. 4, 44, and 64, Amendment of SFAS No. 13, and Technical Corrections" ("SFAS 145"). Among other things, SFAS 145 rescinds various pronouncements regarding early extinguishment of debt and allows extraordinary accounting treatment for early extinguishment only when the provisions of Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. SFAS 145 provisions regarding early extinguishment of debt are generally effective for fiscal years beginning after May 15, 2002. The Company does not currently anticipate this statement to have any effect on it's financial statements.

Contractual Obligations and Commitments

The Company's contractual obligations disclosure in its Annual Report on Form 10-K for the year ended December 31, 2002 has not materially changed since that report was filed. During the three months ended March 31, 2003 payments of $721,000 were made under previously existing operating leases and repayments of $308,000 were made under previously existing long-term debt agreements.

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; future research and development spending and the Company's product development strategy; the levels of international sales; future expansion or utilization of manufacturing capacity; future expenditures; and 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, 2002.

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 during 2002 after shrinking for a period in 2001, 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. In addition, the Company is unable to determine the future impact of various geo-political issues, as well as the recent outbreak of severe acute respiratory syndrome (“SARS”), on global and regional economies. If economic conditions in the global or regional economies 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:

- disruption of customer demand, transportation or supplier operations due to war or terrorism
- disruption of customer demand, transportation or supplier operations due to SARS
- 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

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. A rapid and sudden decline in customer demand for the Company’s products can result in excess quantities of certain of the Company’s products relative to demand. Should this occur the Company’s operating results may be adversely affected as a result of charges to reduce the carrying value of the Company’s inventory to the estimated demand level or market price.

The weakness in the global economy in 2001 and 2002 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 inventories in response to short supplier lead times. 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 the Company's 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 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 when economic growth and customer demand is less certain, such as the semiconductor industry is now experiencing, 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 cost reduction actions the Company has initiated may not materialize as expected, or be sustained as business improves.

The Company has implemented or initiated a variety of cost reduction actions. The expected future cost savings from these programs may not materialize as anticipated resulting in a smaller benefit to the Company’s financial results of operations. Furthermore, when customer demand improves and revenues increase, it is unclear whether Micrel will continue to benefit from all of the cost reduction actions that have been implemented.

The consolidation of wafer fabrication operations into the Company’s San Jose facility may negatively impact the results of operations or fail to result in expected cost savings.

In September 2002, the Company approved a plan to close its Santa Clara, CA wafer fabrication facility and transfer the production and research and development processes and certain equipment into its San Jose, CA facility. If the transfer of the equipment and manufacturing processes is not successful or is delayed, this could result in the Company's inability to manufacture certain products and delay certain new product development. In addition, expected cost savings related to this consolidation may be delayed or unachieved. Either of these factors could have an adverse effect on the Company's results of operations and financial condition.

Market conditions may lead the Company to initiate additional cost reduction plans, which may negatively affect near term operating results.

As a result of weak customer demand, competitive pricing pressures, excess capacity, weak economic conditions or other factors, the Company may decide to initiate actions to reduce the Company’s cost structure and improve the Company’s future operating results. The cost reduction actions may require incremental costs to implement, which could negatively affect the Company’s operating results in periods when the incremental costs or liabilities are incurred.

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 grow 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.

An important part of the Company's strategy is to continue to focus on the market for high-speed communications integrated circuits. If the severe downturn in the telecommunications infrastructure industry continues resulting in lack of demand for the Company’s high bandwidth products, the Company's future revenue growth and profitability could be adversely affected.

The Company's Ethernet products have become an important portion of the Company's revenues. If the Company fails to develop new products to serve this market in a timely manner, or if the market acceptance of the Company’s new Ethernet products is poor, if a competitor's products unfavorably affect pricing or demand for the Company's products, the Company's revenues and results of operations 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.

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, including geopolitical risks.

It is unclear what effect prolonged military conflict would have on world trade or on economic conditions in specific regions of the world. Reduced levels of economic activity, or disruptions of international transportation, could adversely affect the Company’s sales on either a global basis or in specific geographic regions. Two of the Company’s top ten direct customers are located in South Korea. In the event that current political tensions surrounding North Korea evolve into military or social conflict, the Company’s revenues, results of operations, cash flow and financial condition could be adversely affected.

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, 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 or political conditions in Asia or elsewhere in the world. 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'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 would not be 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.

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 it's 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 a 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 it's products on time.

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 cannot 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 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.

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.

The Company's ability to manufacture sufficient wafers to meet demand could be severely hampered by natural disasters.

The Company's existing wafer fabrication facilities are located in Northern California and these facilities may be subject to natural disasters such as earthquakes. A significant natural disaster, such as an earthquake or prolonged drought, could have a material adverse impact on the Company's business, financial condition and operating results.

The Company's business could be adversely affected by electrical power or natural gas supply interruptions.

The majority of the Company's administrative, technical and manufacturing facilities are located in Northern California and these facilities may be subject to electrical power or natural gas supply interruptions. In recent months, electrical power suppliers have experienced shortages in electrical power which has resulted in brief electrical power interruptions. The weak financial condition of California's Public Utilities may aggravate the situation and shortages may develop for natural gas. Semiconductor manufacturing depends upon a controlled environment that requires high usage of electrical power and natural gas. Frequent or extended electrical power interruptions could have a negative impact on production output, manufacturing yields, and manufacturing efficiencies and could have a material adverse impact on the Company's business, financial condition and operating results.

The Company could incur substantial fines or litigation costs associated with it's storage, use and disposal of hazardous materials.

The Company is subject to a variety of federal, state and local governmental regulations related to the use, storage, discharge and disposal of toxic, volatile or otherwise hazardous chemicals used in it's manufacturing process. Any failure to comply with present or future regulations could result in the imposition of fines, the suspension of production, alteration of the Company's manufacturing processes or a cessation of operations. In addition, these regulations could restrict the Company's ability to expand it's facilities at their present locations or construct or operate a new wafer fabrication facility or could require us to acquire costly equipment or incur other significant expenses to comply with environmental regulations or clean up prior discharges. The Company's failure to control the use of, disposal or storage of, or adequately restrict the discharge of, hazardous substances could subject us to future liabilities and could have a material adverse effect on it's business.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company's market risk disclosures set forth in the Company's 2002 Form 10-K for the year ended December 31, 2002 have not changed significantly during the three months ended March 31, 2003.

ITEM 4:   CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission, and that such information is accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Within 90 days prior to the date of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's chief executive officer and chief financial officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on the foregoing, the Company's chief executive officer and chief financial officer concluded that the Company's disclosure controls and procedures appear to be effective.

There have been no significant changes in the Company's internal controls or in other factors that could significantly affect the internal controls subsequent to the date the Company completed its evaluation.

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 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(a) None.

(b) Dividend Payment Restrictions

The Company has entered into borrowing agreements that contains restrictions on the declaration and payment of dividends without the lender's consent. In addition, the Company currently intends to retain future earnings to fund operations, and does not anticipate paying dividends on its common stock in the foreseeable future.

(c) None.

(d) Not applicable.

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, 2003.

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 15, 2003

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

CERTIFICATIONS

I, Raymond D. Zinn, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Micrel, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003 By /s/ Raymond D. Zinn

Raymond D. Zinn
President, Chief Executive Officer and Director
(Principal Executive Officer)

I, Richard D. Crowley, Jr. certify that:

1. I have reviewed this quarterly report on Form 10-Q of Micrel, Incorporated;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 15, 2003 By /s/ Richard D. Crowley, Jr.

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