

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

On April 21, 2003, the Company filed a complaint against its former independent public 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. In this lawsuit, Micrel alleged that Deloitte negligently rendered services as accountants to Micrel, breached certain agreements with Micrel by failing to perform services using ordinary skill and competence and in conformance with generally accepted principles for such work and made certain false representations upon which Micrel justifiably relied. Deloitte has denied all allegations in the complaint. The complaint sought compensatory damages, costs of suit and such other relief that the court may deem just and proper. On February 23, 2007, the parties entered into a Settlement Agreement and Mutual Releases. Under the terms of the Agreement, the parties agreed to dismiss with prejudice the pending litigation and Deloitte paid to Micrel a settlement amount of \$15.5 million. The Company recorded the \$15.5 million settlement amount as other income in the quarter ended March 31, 2007.

On November 11, 2004, the Company filed a complaint against Monolithic Power Systems (“MPS”), entitled *Micrel, Inc. v. Monolithic Power Systems*, in the United States District Court, Northern District of California (the “Court”) alleging two causes of action for infringement by MPS of certain patents owned by Micrel. In the complaint, the Company alleges that MPS has been and is infringing U.S. patent no. 5,517,046 (the “’046 patent”) and U.S. patent no. 5,556,796 (the “’796 patent”). Subsequently, on November 29, 2004 the Company filed an amended complaint adding Michael R. Hsing, MPS’ President and Chief Executive Officer (“Hsing”), and James C. Moyer, MPS’ Chief Design Engineer (“Moyer”) as defendants. Hsing and Moyer are both former employees of Micrel. In addition to the original two causes of action against MPS for infringement of the ’046 and ’796 Patents, the amended complaint added causes of action for statutory and common law misappropriation of Micrel’s trade secrets, breach of confidentiality agreements by Hsing and Moyer, and violation of California’s Unfair Competition Law. On September 21, 2006, the Company and MPS entered into a Settlement Agreement, agreeing to dismiss all claims and counterclaims in the litigation with prejudice. Micrel also agreed to release MPS and its chief executive officer Michael Hsing and its chief design engineer James Moyer from all claims for any alleged trade secret claims based on any confidential information. In addition, Micrel licensed U.S. Patent Nos. 5,517,046 and 5,556,796 to MPS. Under the terms of the agreement MPS agreed to pay a license fee of \$3.0 million of which \$1.0 million was paid in September 2006, \$1.0 million was paid in December 2006 and the remaining \$1.0 million balance will be paid by January 2008. In the third quarter of 2006 the Company recorded \$2.9 million in net revenues representing the present value of the license payments from MPS.

On June 9, 2006, Deerfield 3250 Scott, LLC (“Deerfield”), the building owner of Micrel's Santa Clara Wafer Fab facility which was closed in 2003 (see note 14), filed a complaint against the Company entitled “*Deerfield 3250 Scott, LLC vs. Micrel, Inc. et al*” in the Superior Court of the State of California, County of Santa Clara. In February 2006, Micrel terminated this building lease under the terms of the lease agreement due to major vandalism rendering the building unusable. Deerfield disputes that Micrel had a right to terminate, alleging that the vandalism took place because of the negligence of Micrel and that Micrel should not be able to benefit from its own negligence. The complaint seeks damages in an unspecified amount for rent through the remaining term of the lease (from March 1 through October 31, 2006), alleged damages to the premises, and for wrongful removal of equipment. Micrel disputes Deerfield's allegations and will vigorously defend against the action. On July 21, 2006, Micrel answered the complaint with a denial of any liability and the filing of a cross-complaint against Deerfield seeking return of the security deposit and rent paid from the date of the casualty, January 20, 2006 through February 28, 2006. The case is in the discovery phase and no trial date has yet been set.

With the exception of the previously recorded operating expenses, the Company believes that the ultimate outcome of the legal actions discussed will not result in a material adverse effect on the Company's financial condition, results of operation or cash flows, and the Company believes it is not reasonably possible that a material loss has been incurred. 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.