



Letter of Comment No: 2330
File Reference: 1102-100

MICREL, INC.
1849 Fortune Drive
San Jose, CA 95131

TEL (408) 944-0800
FAX (408) 944-0970

May 4, 2004

Financial Accounting Standards Board
401 Merritt 7
P. O. Box 5116
Norwalk, Connecticut 06856-5116

Subject: Employee Stock Options Are Not Compensation

Dear Sirs:

I am the President and CEO of Micrel, Inc. located in San Jose, California. We are a semiconductor company that was started without the benefit of Venture Funding. I and another individual put up most of the entire capital needed to start the company, relying on bank loans for the balance. The company has issued Stock Options to the employees since the day we started the company. We went public in December 1994 on the Nasdaq Stock Exchange.

When I issue Stock Options to our employees, and even until this day, I have never considered them as compensation, but rather as an opportunity for our employees to invest in the company without actually having to put up the cash to do so. The employee Stock Option is an inducement to the employee to put in extra work and creativity, with the hope that this extra effort will result in an appreciated investment for the employee. So on the surface, this sounds like compensation, since the company is inducing the employee to work hard and be creative, and therefore, like a bonus, it looks like compensation. But that is where the similarity stops. For it to be considered compensation, the employee has to be guaranteed that he or she is going to be remunerated for his or her efforts. There is no way that a company can guarantee in any form that a stock option grant will give the employee the requisite compensation for their extra effort. There are far too many factors that are outside the company's control to ensure that the stock will appreciate during the option vesting period. Therefore, the stock option becomes more of an investment opportunity and strategy for the employee, with its attendant risks; and it is not, therefore, compensation under the classical definition of compensation.

May 4, 2004
Financial Accounting Standards Board

Page 2

If the company cannot control the stock price, it is illogical for the company to expense a stock option as compensation. The income statement is supposed to reflect the ability of the company to control its expenses. If stock options were expensed on the income statement, it would be an unfair reflection on the company's management of something over which it has no control.

The FASB should consider stock options as a risk investment similar to if a situation where an employee had put up their own money to purchase the company's stock. In summary, the value of the employee stock option is not under the direct control of the company. Therefore it does not meet the legal definition of the word compensation, and should not be considered as a charge to the company's financials.

Sincerely,



Ray Zinn
President/CEO

cc: Raman Chickura, PriceWaterhouse Coopers, LLC
Bob Whelton, Exec. VP, Operations – Micrel, Inc.
Robert J. Barker, VP, Corp. Bus. Dev. – Micrel, Inc.
Richard D. Crowley, Jr., CFO, VP Finance – Micrel, Inc.
J. Guy Gandenberger, VP Wafer Fab Operations – Micrel, Inc.
Jung-Chen Lin, VP Ethernet Products – Micrel, Inc.
Mark Lunsford, VP Sales – Micrel, Inc.
Carlos Mejia Jr., VP Human Resources – Micrel, Inc.
J. Barry Small, VP Analog Design/R&D – Micrel, Inc.
Scott Ward, VP Test Operations – Micrel, Inc.
Thomas S. Wong, VP High Bandwidth Products – Micrel, Inc.
Richard Zelenka, VP Quality Assurance – Micrel, Inc.