SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended January 2, 2005

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 0-14864

LINEAR TECHNOLOGY CORPORATION

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

DELAWARE	**94-2778785**
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NO.)

1630 McCarthy Boulevard
Milpitas, California 95035
(408) 432-1900
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES, INCLUDING ZIP CODE AND TELEPHONE NUMBER)

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 ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes ☒ No ☐

There were 307,074,399 shares of the Registrant's Common Stock issued and outstanding as of January 28, 2005.

LINEAR TECHNOLOGY CORPORATION
FORM 10-Q
THREE AND SIX MONTHS ENDED JANUARY 2, 2005

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

LINEAR TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(In thousands, except per share amounts)
(unaudited)

	Three Months Ended		Six Months Ended	
	January 2, 2005	December 28, 2003	January 2, 2005	December 28, 2003
Net sales	$ 250,121	$ 186,021	$ 503,149	$ 360,098
Cost of sales	53,890	43,777	108,729	85,186
Gross profit	196,231	142,244	394,420	274,912
Expenses:				
Research and development	32,413	24,992	63,047	49,327
Selling, general and administrative	26,321	19,240	49,379	36,811
	58,734	44,232	112,426	86,138
Operating income	137,497	98,012	281,994	188,774
Interest income, net	7,244	6,684	12,712	13,769
Income before income taxes	144,741	104,696	294,706	202,543
Provision for income taxes	41,923	30,361	88,412	58,737
Net income	$ 102,818	$ 74,335	$ 206,294	$ 143,806
Basic earnings per share	$ 0.33	$ 0.24	$ 0.67	$ 0.46
Shares used in the calculation of basic earnings per share	307,856	313,369	307,879	313,389
Diluted earnings per share	$ 0.33	$ 0.23	$ 0.65	$ 0.44
Shares used in the calculation of diluted earnings per share	315,797	323,440	315,967	323,167
Cash dividends per share	$ 0.08	$ 0.06	$ 0.16	$ 0.12

See accompanying notes

LINEAR TECHNOLOGY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except per share amounts)

	January 2, 2005	June 27, 2004
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 185,108	$ 203,542
Short-term investments	1,546,803	1,452,998
Accounts receivable, net of allowance for doubtful accounts of $1,727 ($1,762 at June 27, 2004)	97,518	79,142
Inventories:		
Raw materials	3,772	3,353
Work-in-process	21,368	22,217
Finished goods	6,772	7,134
Total inventories	31,912	32,704
Deferred tax assets	44,912	44,912
Prepaid expenses and other current assets	18,409	18,797
Total current assets	1,924,662	1,832,095
Property, plant and equipment, at cost:		
Land, buildings and improvements	145,703	143,077
Manufacturing and test equipment	369,349	338,208
Office furniture and equipment	3,399	3,399
	518,451	484,684
Accumulated depreciation and amortization	(303,834)	(283,604)
Net property, plant and equipment	214,617	201,080
Other non current assets	56,359	54,528
Total assets	$ 2,195,638	$ 2,087,703
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 10,576	$ 14,410
Accrued payroll and related benefits	60,298	54,339
Deferred income on shipments to distributors	45,257	41,862
Income taxes payable	60,663	71,985
Other accrued liabilities	17,172	20,018
Total current liabilities	193,966	202,614
Deferred tax and other long-term liabilities	73,620	74,484
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.001 par value, 2,000 shares authorized; none issued or outstanding	--	--
Common stock, $0.001 par value, 2,000,000 shares authorized; 308,271 shares issued and outstanding at January 2, 2005 (308,548 shares at June 27, 2004)	308	309
Additional paid-in capital	875,462	815,163
Accumulated other comprehensive income, net of tax	(578)	(2,460)
Retained earnings	1,052,860	997,593
Total stockholders' equity	1,928,052	1,810,605
Total liabilities and stockholders' equity	$ 2,195,638	$ 2,087,703

See accompanying notes

LINEAR TECHNOLOGY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(unaudited)

	Six Months Ended	
	January 2, 2005	December 28, 2003
Cash flow from operating activities:		
Net income	$ 206,294	$ 143,806
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,311	24,512
Tax benefit from stock option transactions	20,801	20,755
Stock-based compensation	8,097	--
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable	(18,376)	(9,397)
Decrease (increase) in inventories	792	(973)
Decrease (increase) in prepaid expenses and other current assets and deferred tax assets	388	(1,433)
Decrease (increase) in non current assets	--	(875)
Increase (decrease) in accounts payable, accrued payroll and other accrued liabilities	(2,762)	2,888
Increase (decrease) in deferred income on shipments to distributors	3,395	(836)
Increase (decrease) in income taxes payable and deferred tax liabilities	(11,323)	11,091
Cash provided by operating activities	230,617	189,538
Cash flow from investing activities:		
Purchase of short-term investments	(617,493)	(480,743)
Proceeds from sales and maturities of short-term investments	522,088	466,012
Purchase of property, plant and equipment	(34,019)	(4,247)
Cash provided by (used in) investing activities	(129,424)	(18,978)
Cash flow from financing activities:		
Issuance of common shares under employee stock plans	39,415	35,775
Purchase of common stock	(109,282)	(83,716)
Payment of cash dividends	(49,760)	(37,644)
Cash provided by (used in) financing activities	(119,627)	(85,585)
Increase (decrease) in cash and cash equivalents	(18,434)	84,975
Cash and cash equivalents, beginning of period	203,542	136,276
Cash and cash equivalents, end of period	$ 185,108	$ 221,251

See accompanying notes

LINEAR TECHNOLOGY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Interim financial statements and information are unaudited; however, in the opinion of management all adjustments necessary for a fair and accurate presentation of the interim results have been made. All such adjustments were of a normal recurring nature. The results for the three and six month periods ended January 2, 2005 are not necessarily an indication of results to be expected for the entire fiscal year. All information reported in this Form 10-Q should be read in conjunction with the Company's annual consolidated financial statements for the fiscal year ended June 27, 2004 included in the Company's Annual Report on Form 10-K. The accompanying balance sheet at June 27, 2004 has been derived from audited financial statements as of that date. Because the Company is viewed as a single operating segment for management purposes, no segment information has been disclosed.

2. The Company operates on a 52/53-week work year, ending on the Sunday nearest June 30. Fiscal year 2005 is a 53-week work year, with the additional week falling in the three month period ended January 2, 2005. Fiscal 2004 was a 52-week year. Accordingly, the three months ended January 2, 2005 and December 28, 2003 are 14 and 13-week periods, respectively.

3. Basic earnings per share is calculated using the weighted average shares of common stock outstanding during the period. Diluted earnings per share is calculated using the weighted average shares of common stock outstanding, plus the dilutive effect of stock options calculated using the treasury stock method. The following table sets forth the reconciliation of weighted average common shares outstanding used in the computation of basic and diluted earnings per share:

	Three Months Ended		Six Months Ended	
	January 2, 2005	December 28, 2003	January 2, 2005	December 28, 2003
Numerator - Net income	$ 102,818	$ 74,335	$ 206,294	$ 143,806
Denominator for basic earnings per share – weighted average shares	307,856	313,369	307,879	313,389
Effect of dilutive securities – employee stock options	7,941	10,071	8,088	9,778
Denominator for diluted earnings per share	315,797	323,440	315,967	323,167
Basic earnings per share	$ 0.33	$ 0.24	$ 0.67	$ 0.46
Diluted earnings per share	$ 0.33	$ 0.23	$ 0.65	$ 0.44

4. Stock-Based Compensation

As permitted by SFAS 148 and SFAS 123, the Company continues to apply the accounting provisions of APB 25, and related interpretations, with regard to the measurement of compensation cost for options granted under the Company's equity compensation plans. Compensation expense is recorded if on the date of grant the current fair value per share of the underlying stock exceeds the exercise price per share.

During the first quarter of fiscal 2005, the Company issued restricted stock to certain officers and employees who have been with the Company at least three years to encourage employee retention. Under this program, the Company issued 1,578,440 restricted shares with an exercise price of $0.001 per share and a grant date fair value of $37.05 per share. The right to sell the shares vests annually at the rate of 1/3 per year based upon continued employment; upon employee termination the Company has the right to buy back unvested shares at the exercise price. Pursuant to APB 25, the Company records

compensation expense for the difference between the grant date fair value and the exercise price on a straight-line basis over the vesting period.

Had expense been recognized for stock options granted with a grant price equal to the current fair market value of the stock at the date of grant using the fair value method described in SFAS 123, using the Black-Scholes option-pricing model, the Company would have reported the following results of operations:

	Three Months Ended		Six Months Ended	
	January 2, 2005	December 28, 2003	January 2, 2005	December 28, 2003
Net income as reported	$ 102,818	$ 74,335	$ 206,294	$ 143,806
Add: Stock based employee compensation expense included in reported net income, net of related tax effects	3,443	--	5,685	--
Deduct: Total stock-based compensation expense determined under the fair value method, net of tax	(25,469)	(19,036)	(45,383)	(37,563)
Pro forma net income	$ 80,792	$ 55,299	166,596	$ 106,243
Earning per share:				
Basic-as reported	$ 0.33	$ 0.24	$ 0.67	$ 0.46
Basic-pro forma	$ 0.26	$ 0.18	$ 0.54	$ 0.34
Diluted-as reported	$ 0.33	$ 0.23	$ 0.65	$ 0.44
Diluted-pro forma	$ 0.26	$ 0.17	$ 0.53	$ 0.33

5. Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains and losses on available-for-sale securities. The Company, in practice, primarily holds its cash and short-term investments until maturity. The components of comprehensive income were as follows:

	Three Months Ended		Six Months Ended	
	January 2, 2005	December 28, 2003	January 2, 2005	December 28, 2003
Net income	$ 102,818	$ 74,335	$ 206,294	$ 143,806
Increase (decrease) in unrealized gains on available-for-sale securities	344	(2,029)	1,882	(3,998)
Total comprehensive income	$ 103,162	$ 72,306	$ 208,176	$ 139,808

6. Product Warranty and Indemnification

The Company's warranty policy provides for the replacement of defective parts. In certain large contracts, the Company has agreed to negotiate in good faith a warranty expense in the event that an epidemic failure of its parts were to take place. To date there have been no such occurrences. Warranty expense historically has been negligible.

The Company provides a limited indemnification of customers against intellectual property infringement claims related to the Company's products. In certain cases, there are limits on and exceptions to the Company's potential liability for indemnification relating to intellectual property infringement claims. To date, the Company has not incurred any significant indemnification expenses relating to intellectual property infringement claims. The Company cannot estimate the amount of potential future payments, if any, that the Company might be required to make as a result of these agreements, and accordingly, the Company has not accrued any amounts for its indemnification obligations.

7. Recent Accounting Pronouncements

In March 2004, the Financial Accounting Standards Board (FASB) approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The objective of this Issue is to provide guidance for identifying impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In October 2004, the FASB delayed the effective date of the accounting provisions of EITF 03-1. The disclosure requirements are effective for annual periods ending after June 15, 2004. The Company believes that the adoption of EITF 03-1 will not affect the overall results of operations or financial position of the Company.

In December 2004, the Financial Accounting Standard Board (FASB) issued Statement of Financial Accounting Standard (SFAS) 123 (Revised 2004), "Shared-Based Payment". Revised SFAS 123 addresses the requirements that an entity measure the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of the award. The cost of such award will be recognized over the period during which an employee is required to provide services in exchange for the award. The Company will be required to adopt this Statement during the first quarter of fiscal year 2006.

As permitted by SFAS 123, the Company currently accounts for share-based payments by applying the accounting provisions of APB 25's intrinsic value method and, as such, the Company generally recognizes no compensation cost for employee stock options. Accordingly, the adoption of Revised SFAS 123's fair value method will have a significant impact on the Company's results of operations, although it will have no added impact on its overall financial position. The impact of adoption of Revised Statement 123 cannot be predicted at this time because it will depend on level of share-based payments granted in the future. However, had the Company adopted Revised SFAS 123 in prior periods, the impact of that standard would have approximated the impact of Statement 123 as described in the disclosure of pro-forma net income and earnings per share in Note 4.

8. Subsequent Event

On January 18, 2005, the Company announced that it had accelerated the vesting of unvested stock options awarded more than one year prior to employees and officers under its stock option plans that had exercise prices greater than the current price of the stock January 18, 2005 ($37.04). Unvested options to purchase approximately 4.5 million additional shares became exercisable as a result of the vesting acceleration. Typically, the Company grants stock options that vest equally over a five-year period. The purpose of the accelerated vesting is to enable the Company to avoid recognizing in its income statement compensation expense associated with these options in future periods, upon adoption of FASB Statement No. 123R (Share-Based Payment) in July 2005. The charge to the income statement to be avoided amounts to approximately $75 million over the course of the original vesting period, of which $36 million would have occurred in fiscal 2006.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies

The Company's financial statements have been prepared in accordance with accounting principles generally accepted in the United States, which require it to make estimates and judgments that significantly affect the reported amounts of assets, liabilities, revenues and expenses and related disclosure of contingent assets and liabilities. The Company regularly evaluates these estimates, including those related to inventory valuation and revenue recognition. These estimates are based on historical experience and on assumptions that are believed by management to be reasonable under the circumstances. Actual results may differ from these estimates, which may impact the carrying values of assets and liabilities.

The Company believes the following critical accounting policies affect the more significant judgments and estimates used in the preparation of consolidated financial statements.

Inventory Valuation

The Company values inventories at the lower of cost or market. The Company records charges to write down inventories for unsalable, excess or obsolete raw materials, work-in-process and finished goods. Newly introduced parts are generally not valued until success in the market place has been determined by a consistent pattern of sales and backlog among other factors. The Company arrives at the estimate for newly released parts by analyzing sales and customer backlog against ending inventory on hand. The Company reviews the assumptions on a quarterly basis and makes decisions with regard to the reserve based on the current business climate. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required that could adversely affect our operating results. If actual market conditions are more favorable, the Company may have higher gross margins when products are sold. Sales to date of such products have not had a significant impact on our gross margin. In addition to writedowns based on newly introduced parts, statistical and judgmental assessments are calculated for the remaining inventory based on salability, obsolescence, historical experience and current business conditions.

Revenue Recognition

Revenue from product sales made directly to customers is recognized upon the transfer of title, which generally occurs at the time of shipment. Revenue from the Company's sales to domestic distributors is generally recognized under agreements which provide for certain sales price rebates and limited product return privileges. As a result, the Company defers recognition of such sales until the domestic distributors sell the merchandise. The Company relieves inventory and records a receivable on the initial sale to the distributor as title has passed to the distributor and payment is collected on the receivable within normal trade terms. The income to be derived from distributor sales is recorded under current liabilities on the balance sheet as "Deferred income on shipments to distributors" until such time as the distributor confirms a final sale to its end customer.

The Company's sales to international distributors are made under agreements which permit limited stock return privileges but not sales price rebates. Revenue on these sales is recognized upon shipment at which time title passes. The Company has reserves to cover expected product returns. If product returns for a particular fiscal period exceed or are below expectations, the Company may determine that additional or less sales return allowances are required to properly reflect its estimated exposure for product returns. Generally, changes to sales return allowances have not had a significant impact on operating margin.

Results of Operations

The table below states the income statement items for the three and six months ended January 2, 2005 and December 28, 2003 as a percentage of net sales and provides the percentage change in absolute dollars of such items comparing the interim periods ended January 2, 2005 to the corresponding periods from the prior fiscal year:

	Three Months Ended			Six Months Ended		
	January 2, 2005	December 28, 2003	Increase/ (Decrease)	January 2, 2005	December 28, 2003	Increase/ (Decrease)
Net sales	100.0%	100.0%	34%	100.0%	100.0%	40%
Cost of sales	21.5	23.5	23	21.6	23.7	28
Gross profit	78.5	76.5	38	78.4	76.3	43
Expenses:						
Research and development	13.0	13.4	30	12.5	13.7	28
Selling, general and administrative	10.5	10.4	37	9.8	10.2	34
	23.5	23.8	33	22.3	23.9	31
Operating income	55.0	52.7	40	56.1	52.4	49
Interest income, net	2.9	3.6	8	2.5	3.8	(8)
Income before income taxes	57.9%	56.3%	38	58.6%	56.2%	46
Effective tax rates	29.0%	29.0%		30.0%	29.0%	

Net sales for the quarter ended January 2, 2005 were $250.1 million, an increase of $64.1 million or 34% over net sales of $186.0 million for the same quarter of the previous fiscal year. The increase in net sales was primarily due to the Company selling more units into a wide variety of end-markets in response to improving overall demand. The average selling price for the second quarter of fiscal 2005 was relatively unchanged at $1.42 per unit as compared to $1.39 per unit in

the second quarter of fiscal 2004. Geographically, international sales were $184.8 million or 74% of net sales, an increase of $54.6 million as compared to international sales of $130.2 million or 70% of net sales for the same period in fiscal 2004. Internationally, sales to Rest of the World (ROW), which is primarily Asia excluding Japan, represented $107.2 million or 43% of net sales, while sales to Europe and Japan were $42.6 million or 17% of net sales and $35.0 million or 14% of net sales, respectively. Domestic sales were $65.3 million or 26% of net sales in the second quarter of fiscal 2005 compared to $55.8 million or 30% of net sales in the same period in fiscal 2004. The decline in the percentage of domestic sales and the related increase in the percentage of international sales primarily results from the Company's domestic customers shifting more of their manufacturing operations overseas.

Net sales for the six months ended January 2, 2005 were $503.1 million, an increase of $143.0 million or 40% over net sales of $360.1 million for the same period of the previous fiscal year. The increase in net sales for the six-month period was due to similar factors as the three-month period discussed above. The average selling price for the first six-month period of fiscal 2005 was relatively unchanged at $1.42 per unit as compared to $1.39 per unit in the same period of fiscal 2004. Geographically, international sales were $367.9 million or 73% of net sales for the first six-month period of fiscal 2005, an increase of $111.2 million as compared to international sales of $256.7 million or 71% of net sales for the same period in fiscal 2004. Internationally, sales to ROW, represented $209.2 million or 42% of net sales, while sales to Europe and Japan were $87.2 million or 17% of net sales and $71.5 million or 14% of net sales, respectively. Domestic sales were $135.2 million or 27% of net sales in the first six-month period of fiscal 2005 compared to $103.4 million or 29% of net sales in the same period in fiscal 2004. The decline in the percentage of domestic sales and the related increase in the percentage of international sales primarily results from the Company's domestic customers shifting more of their manufacturing operations overseas.

The Company ends every fiscal quarter on the Sunday nearest calendar month-end. Roughly, every five years the Company has a 53-week rather than a 52-week fiscal year. Fiscal 2005 is a 53-week year with the additional week falling in the three-month period ending January 2, 2005. The extra week had a minimal affect on revenue as it occurred during the final holiday week. The extra week resulted in slightly higher compensation costs in the Research and Development and Selling, General and Administrative lines of the Income Statement. The increase in compensation costs for Cost of Goods Sold was largely offset by lower per unit manufacturing costs resulting from an extra week of production volume. The Company received a benefit from the extra week in Interest Income because it accrued an extra week of interest income from its cash investment balance.

Gross profit was $196.2 million and $394.4 million for the second quarter and first six-month period of fiscal 2005, an increase of $54.0 million and $119.5 million, respectively, from the corresponding periods of fiscal 2004. Gross profit as a percentage of net sales increased to 78.5% of net sales in the second quarter of fiscal 2005 as compared to 76.5% of net sales for the same period in the previous fiscal year. Gross profit as a percentage of net sales increased to 78.4% of net sales for the first six-month period of fiscal 2005 as compared to 76.3% of net sales for the same period of the previous fiscal year. The increase in gross profit as a percentage of net sales for the three and six-month periods was primarily due to the favorable effect of fixed costs allocated across higher production volumes in support of higher net sales. Net sales increased 34% and 40% for the three and six-month periods in fiscal 2005.

Research and development ("R&D") expenses for the quarter ended January 2, 2005 were $32.4 million, an increase of $7.4 million or 30% over R&D expenses of $25.0 million for the same period in the previous fiscal year. The increase in R&D was primarily due to a $6.7 million increase in compensation costs. Compensation related to the extra week of labor, increased headcount, and annual merit increases together totaled $2.4 million; compensation expense related to restricted stock grants totaled $1.9 million; and, since the Company had better operating results, R&D profit sharing grew $1.7 million. The related employer taxes and other fringe costs on these increases was $0.7 million. In addition to compensation costs, the Company had a $0.7 million increase in other R&D related expenses such as supplies and test wafers.

Research and development expenses for the six-month period ended January 2, 2005 were $63.0 million, an increase of $13.7 million or 28% over R&D expenses of $49.3 million for the same period in the previous fiscal year. The increase in R&D was primarily due to a $12.5 million increase in compensation costs. The increase in compensation expense related to the extra week of labor, increased headcount and annual merit increases together totaled $3.8 million; the increase in compensation expense related to restricted stock grants totaled $3.3 million; and, since the Company had better operating results, R&D profit sharing grew $4.3 million. The related employer taxes and other fringe costs on these increases was $1.1 million. In addition to compensation costs, the Company had a $1.2 million increase in R&D related expenses such as supplies, mask costs and test wafers.

Selling, general and administrative expenses ("SG&A") for the quarter ended January 2, 2005 were $26.3 million, an increase of $7.1 million or 37% over SG&A expenses of $19.2 million for the same period in the previous fiscal year.

The increase in SG&A was primarily due to a $5.0 million increase in compensation. Compensation related to the extra week of labor, increased headcount and annual merit increases together totaled $1.3 million; compensation expense related to restricted stock grants totaled $2.1 million; and, since the Company had better operating results, SG&A profit sharing grew $1.2 million. The related employer taxes and other fringe costs on these increases was $0.4 million. In addition to compensation costs, the Company had a $2.1 million increase in expenses related to advertising, increases in foreign sales office cost resulting from the weakening of the dollar, increases in commissions for the Company's independent sales representatives and travel costs.

Selling, general and administrative expenses for the six-month period ended January 2, 2005 were $49.4 million, an increase of $12.6 million or 34% over SG&A expenses of $36.8 million for the same period in the previous fiscal year. The increase in SG&A was primarily due to a $9.7 million increase in compensation costs. Compensation related to the extra week of labor, increased headcount and annual merit increases together totaled $2.5 million; compensation expense related to restricted stock grants totaled $3.4 million; and, since the Company had better operating results, SG&A profit sharing grew $3.2 million. The related employer taxes and other fringe costs on these increases was $0.6 million. In addition to compensation costs, the Company had a $2.9 million increase in expenses related to advertising, increases in foreign sales office cost resulting from the weakening of the dollar, commissions for the Company's independent sales representatives and travel costs.

Interest income, net was $7.2 million and $12.7 million for the second quarter and first six-month period of fiscal 2005, an increase of $0.6 million and a decrease $1.1 million, respectively, from the corresponding periods of fiscal 2004. The increase for the three-month period is primarily due to the extra week of accrued interest income. The decrease for the six-month period is primarily due to the decrease in the average interest rate earned on the Company's cash investment balance, partially offset by the extra week of accrued interest income and higher average cash investment balances.

The Company's effective tax rate was 29% and 30% for the second quarter and first six-month period of fiscal 2005. The Company anticipates that its effective tax rate for fiscal 2005 will be 30%. The increase in the effective tax rate from 29% to 30% results primarily from the diminishing percentage that tax-exempt interest income is of total taxable income.

Factors Affecting Future Operating Results

Except for historical information contained herein, the matters set forth in this Form 10-Q, including the statements in the following paragraphs, are forward-looking statements that are dependent on certain risks and uncertainties including such factors, among others, as the timing, volume and pricing of new orders received and shipped during the quarter, the timely introduction of new processes and products, general conditions in the world economy and financial markets and other factors described below and in the Company's 10-K for the fiscal year ended June 27, 2004.

In the second quarter of fiscal 2005 the Company reported a 34% and 38% increase in sales and profits, respectively, over the similar quarter in the previous fiscal year. The quarter ended January 2, 2005 met the Company's expectations with sales and profits down slightly from the September quarter. It has been a challenging business environment due to inventory corrections throughout the various sales channels and also due to some moderation in the rate of growth of end-user demand. However, the Company believes its ending on-hand inventory at distributors is lean, and inventory turn ratios are high by historic standards. Also, the Company's distributors are projecting moderate increases in sales volume in the March quarter and lead times have remained unchanged at 4 to 6 weeks. Accordingly, although these are difficult times for the Company to forecast, based upon these and other factors, the Company forecasts that revenues for the March quarter will be similar to that just achieved during the December quarter, while profits will be down slightly due to the increase in the effective tax rate from 29% to 30%.

Estimates of future performance are uncertain, and past performance of the Company may not be a good indicator of future performance due to factors affecting the Company, its competitors, the semiconductor industry and the overall economy. The semiconductor industry is characterized by rapid technological change, price erosion, cyclical market patterns, periodic oversupply conditions, occasional shortages of materials, capacity constraints, variations in manufacturing efficiencies and significant expenditures for capital equipment and product development. Furthermore, new product introductions and patent protection of existing products, as well as exposure related to patent infringement suits if brought against the Company, are factors that can influence future sales growth and sustained profitability. The Company's headquarters and a portion of its manufacturing facilities and research and development activities and certain other critical business operations are located near major earthquake fault lines in California, consequently, the Company could be adversely affected in the event of a major earthquake.

Although the Company believes that it has the product lines, manufacturing facilities and technical and financial resources for its current operations, sales and profitability could be significantly affected by factors described above and other factors. Additionally, the Company's common stock could be subject to significant price volatility should sales and/or earnings fail to meet expectations of the investment community. Furthermore, stocks of high technology companies are subject to extreme price and volume fluctuations that are often unrelated or disproportionate to the operating performance of these companies.

Liquidity and Capital Resources

At January 2, 2005, cash, cash equivalents and short-term investments totaled $1,731.9 million, and working capital was $1,730.7 million.

Accounts receivable totaled $97.5 million at the end of the second quarter of fiscal 2005, an increase of $18.4 million from the end of the fourth quarter of fiscal 2004. The increase is primarily due to higher shipments. Days sales outstanding increased slightly from 30 days to 36 days at the end of the second quarter of fiscal 2005.

Income taxes payable totaled $60.7 million at the end of the second quarter of fiscal 2005, a decrease of $11.3 million from the fourth quarter of fiscal 2004. The decrease is due to the higher income tax payments and tax benefits from stock option transactions partially offset by higher income tax expense.

During the first six months of fiscal 2005, the Company generated $230.6 million of cash from operating activities and $39.4 million in proceeds from common stock issued under employee stock plans.

During the first six months of fiscal 2005, significant cash expenditures included the repurchase of $109.3 million in common stock, $95.4 million from net purchases of short-term investments, payments of $49.8 million in cash dividends to stockholders representing $0.08 per share, and purchases of $34.0 million for capital assets. In January, the Company's Board of Directors declared an increase to the quarterly cash dividend to $0.10 per share from $0.08 per share. The $0.10 per share dividend will be paid during the March quarter of fiscal 2005. The payment of future dividends will be based on quarterly financial performance.

As of January 2, 2005 the Company had no off-balance sheet financing arrangements.

Historically, the Company has satisfied its liquidity needs through cash generated from operations. Given its strong financial condition and performance, the Company believes that current capital resources and cash generated from operating activities will be sufficient to meet its liquidity and capital expenditures requirements for the foreseeable future.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

For additional quantitative and qualitative disclosures about market risk affecting the Company, see item 7A of the Company's Form 10-K for the fiscal year ended June 27, 2004. There have been no material changes in the market risk affecting the Company since the filing of the Company's Form 10-K for fiscal 2004. At January 2, 2005, the Company's cash and cash equivalents consisted primarily of bank deposits, commercial paper and money market funds. The Company's short-term investments consisted of municipal bonds, federal agency bonds, commercial paper, and related securities. The Company did not hold any derivative financial instruments. The Company's interest income is sensitive to changes in the general level of interest rates. In this regard, changes in interest rates can affect the interest earned on cash and cash equivalents and short-term investments.

The Company's sales outside the United States are transacted in U.S. dollars; accordingly the Company's sales are not impacted by foreign currency rate changes. To date, fluctuations in foreign currency exchange rates have not had a material impact on the results of operations.

Item 4. Controls and Procedures

(a) Evaluation of disclosure controls and procedures

The Company's management evaluated, with the participation of the Chief Executive Officer and the Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information that the Company is required to disclose in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

(b) Changes in internal controls over financial reporting

There was no change in the Company's internal control over financial reporting that occurred during the second quarter of fiscal 2005 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
c) Stock Repurchases

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet be purchased Under the Plans or Programs (1)
Month #1 (September 27, 2004 - October 24, 2004)	1,089,000	$ 36.44	1,089,000	9,069,952
Month #2 (October 25, 2004 - November 21, 2004)	411,000	$ 36.46	411,000	8,658,952
Month #3 (November 22, 2004 – January 2, 2005)	--	--	--	8,658,952
Total	1,500,000	$ 36.44	1,500,000	8,658,952

(1) On July 20, 2004 the Company's Board of Directors authorized the Company to purchase up to an additional 10,000,000 shares of its common stock in the open market over the subsequent two-year period.

Item 4. Submission of Matter to a Vote of Security Holders

At the Annual Meeting of Stockholders of the Company, held on November 3, 2004, in Milpitas, California, the stockholders elected members of the Company's Board of Directors, and ratified the Company's proposal to appoint Ernst & Young LLP as independent auditors.

The vote for nominated directors was as follows:

NOMINEE	FOR	WITHHELD
Robert H. Swanson, Jr.	276,583,223	8,486,958
David S. Lee	275,711,729	9,358,452
Leo T. McCarthy	278,589,702	6,480,478
Richard M. Moley	278,556,773	6,513,408
Thomas S. Volpe	267,613,320	17,456,860

The vote to ratify the appointment of Ernst & Young LLP as independent auditors for fiscal 2004 was as follows:

FOR	AGAINST	ABSTAIN
242,417,634	41,188,933	1,463,613

Item 6. Exhibits

a) Exhibits:

Exhibit 31.1 Certification of Chief Executive Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 31.2 Certification of Chief Financial Officer Pursuant to Exchange Act Rule 13a-14(a) or 15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

Exhibit 32.1 Certifications of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

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.

LINEAR TECHNOLOGY CORPORATION

DATE: February 11, 2005

BY /s/Paul Coghlan
Paul Coghlan
Vice President, Finance &
Chief Financial Officer
(Duly Authorized Officer and
Principal Financial Officer)