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 October 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 (STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	**94-2778785** (I.R.S. EMPLOYER IDENTIFICATION NO.)
1630 McCarthy Boulevard, Milpitas, California (Address of principal executive offices)	**95035** (Zip Code)

Registrant's telephone number, including are code (408) 432-1900

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $0.001 par value

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 ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

There were 304,766,364 shares of the Registrant's Common Stock issued and outstanding as of October 30, 2005.

LINEAR TECHNOLOGY CORPORATION
FORM 10-Q
THREE MONTHS ENDED OCTOBER 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	
	October 2, 2005	September 26, 2004
Net sales	$ 256,013	$ 253,028
Cost of sales (1)	55,999	54,839
Gross profit	200,014	198,189
Expenses:		
Research and development (1)	37,779	30,634
Selling, general and administrative (1)	31,150	23,058
	68,929	53,692
Operating income	131,085	144,497
Interest income, net	11,622	5,468
Income before income taxes	142,707	149,965
Provision for income taxes	43,526	46,489
Net income	$ 99,181	$ 103,476
Basic earnings per share	$ 0.32	$ 0.34
Shares used in the calculation of basic earnings per share	306,336	308,201
Diluted earnings per share	$ 0.31	$ 0.33
Shares used in the calculation of diluted earnings per share	315,940	316,918
Cash dividends per share	$ 0.10	$ 0.08
(1) Includes stock based compensation charges as follows:		
Cost of sales (Net of $1,200 capitalized in inventory)	$ 1,207	$ 520
Research and development	5,923	1,430
Selling, general and administrative	6,208	1,299
Total stock-based compensation	$ 13,338	$ 3,249

See accompanying notes

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

	October 2, 2005	July 3, 2005
	(unaudited)	(audited)
Assets		
Current assets:		
Cash and cash equivalents	$ 405,020	$ 323,181
Short-term investments	1,429,499	1,467,731
Accounts receivable, net of allowance for doubtful accounts of $1,713 ($1,713 at July 3, 2005)	120,829	125,864
Inventories:		
Raw materials	3,655	3,664
Work-in-process	23,909	22,854
Finished goods	9,617	7,810
Total inventories	37,181	34,328
Deferred tax assets	41,502	38,298
Prepaid expenses and other current assets	20,684	17,907
Total current assets	2,054,715	2,007,309
Property, plant and equipment, at cost:		
Land, buildings and improvements	162,664	167,218
Manufacturing and test equipment	378,165	375,163
Office furniture and equipment	3,336	3,389
	544,165	545,770
Accumulated depreciation and amortization	(317,633)	(324,742)
Net property, plant and equipment	226,532	221,028
Other non current assets	52,075	57,897
Total assets	$ 2,333,322	$ 2,286,234
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$ 16,606	$ 11,800
Accrued payroll and related benefits	44,945	63,787
Deferred income on shipments to distributors	42,896	43,708
Income taxes payable	98,682	68,389
Other accrued liabilities	20,906	20,055
Total current liabilities	224,035	207,739
Deferred tax and other long-term liabilities	70,405	71,461
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; 306,095 shares issued and outstanding at October 2, 2005 (306,587 shares at July 3, 2005)	306	307
Additional paid-in capital	950,688	926,456
Accumulated other comprehensive income, net of tax	(4,122)	(2,839)
Retained earnings	1,092,010	1,083,110
Total stockholders' equity	2,038,882	2,007,034
Total liabilities and stockholders' equity	$ 2,333,322	$ 2,286,234

See accompanying notes

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

	Three Months Ended	
	October 2, 2005	September 26, 2004
Cash flow from operating activities:		
Net income	$ 99,181	$ 103,476
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,068	11,467
Tax benefit from stock option transactions	1,805	7,108
Stock-based compensation	13,338	3,249
Change in operating assets and liabilities:		
Decrease (increase) in accounts receivable	5,035	(12,487)
Decrease (increase) in inventories	(1,652)	1,286
Decrease (increase) in prepaid expenses and other current assets and deferred tax assets	(5,228)	(225)
Decrease (increase) in long-term assets	4,117	--
Increase (decrease) in accounts payable, accrued payroll and other accrued liabilities	(14,241)	(12,494)
Increase (decrease) in deferred income on shipments to distributors	(812)	1,973
Increase (decrease) in income taxes payable	30,293	26,803
Cash provided by operating activities	143,904	130,156
Cash flow from investing activities:		
Purchase of short-term investments	(227,351)	(278,233)
Proceeds from sales and maturities of short-term investments	263,547	311,068
Purchase of property, plant and equipment	(15,867)	(15,367)
Cash provided by (used in) investing activities	20,329	17,468
Cash flow from financing activities:		
Excess tax benefit received on exercise of stock options	3,478	--
Issuance of common shares under employee stock plans	9,416	10,425
Purchase of common stock	(64,450)	(54,614)
Payment of cash dividends	(30,838)	(24,983)
Cash provided by (used in) financing activities	(82,394)	(69,172)
Increase (decrease) in cash and cash equivalents	81,839	78,452
Cash and cash equivalents, beginning of period	323,181	203,542
Cash and cash equivalents, end of period	$ 405,020	$ 281,994

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 months ended October 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 July 3, 2005 included in the Company's Annual Report on Form 10-K. The accompanying balance sheet at July 3, 2005 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 year, ending on the Sunday nearest June 30. Fiscal year 2006 is a 52-week year, fiscal year 2005 was a 53-week year, with the additional week falling in the three month period ended January 2, 2005, the Company's second-quarter.

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	
	October 2, 2005	September 26, 2004
Numerator - Net income	$ 99,181	$ 103,476
Denominator for basic earnings per share – weighted average shares	306,336	308,201
Effect of dilutive securities – employee stock options	9,604	8,717
Denominator for diluted earnings per share	315,940	316,918
Basic earnings per share	$ 0.32	$ 0.34
Diluted earnings per share	$ 0.31	$ 0.33

4. Stock-Based Compensation

Stock–Based Benefit Plans

The Company has stock option plans under which options to purchase shares of the Company's common stock may be granted to employees and directors. At October 2, 2005, the total authorized number of shares under all plans was 184 million. At October 2, 2005, 17.2 million shares were available for grant under all plans. Options generally become exercisable over a five-year period (generally 10% every six months.) Options granted prior to January 11, 2005 expire ten years after the date of grant; options granted after January 11, 2005 expire seven years after the date of the grant.

The Company's employee stock purchase plan (ESPP) permitted eligible employees to purchase common stock through payroll deductions at the lower of 85% of the fair market value of common stock at the beginning or end of each six month

offering period. The offering periods commence on approximately May 1 and November 1 of each year. At October 2, 2005, 0.5 million shares were available for grant under the Company's ESPP plan.

Adoption of SFAS 123R

Beginning in fiscal 2006, the Company accounts for stock-based compensation arrangements in accordance with the provisions of Financial Accounting Standard Board Statement (FASB) No. 123(R) (SFAS 123R), "Share-Based Payment." Under SFAS 123R, compensation cost is calculated on the date of grant using the fair value of the option as determined using the Black Scholes method. The compensation cost is then amortized straight-line over the vesting period. The Black Scholes valuation calculation requires the Company to estimate key assumptions such as expected term, volatility and forfeiture rates to determine the stock options fair value. The estimate of these key assumptions is based on historical information and judgment regarding market factors and trends.

Prior to July 4, 2005, the Company accounted for stock options under the recognition and measurement provisions of APB Opinion No. 25 (APB 25), "Accounting for Stock Issued to Employees," and related Interpretations, as permitted by FASB Statement No. 123 (SFAS 123), "Accounting for Stock-Based Compensation." No stock-based compensation was recognized on employee stock options or ESPP in the Consolidated Income Statement before July 4, 2005. However, as required by APB 25 the Company recognized stock-based compensation related to restricted stock grants prior to July 4, 2005. The Company began issuing restricted stock grants to employees during the first quarter of fiscal year 2005. The right to sell the shares generally vests over a period of three to five years based upon continued employment. Upon termination of employment the Company has the right to buy back unvested shares at the exercise price.

Effective for fiscal year 2006 commencing July 4, 2005, the Company adopted the fair value recognition provisions of SFAS 123R using the modified prospective transition method. Under the modified prospective transition method, prior periods are not restated for the effect of SFAS 123R. Commencing with the first quarter of fiscal year 2006 compensation cost includes all share-based payments granted prior to, but not yet vested as of July 4, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS 123, and compensation for all share-based payments granted subsequent to July 4, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS 123R.

As a result of adopting SFAS 123R on July 4, 2005, total stock-based compensation resulted in a decrease to income before income taxes for the quarter ended October 2, 2005 of $13.3 million and a decrease to net income of $9.3 million after tax. Total stock-based compensation includes the impact of stock options, restricted stock and the employee stock purchase plan. Throughout fiscal 2005 the Company, in accordance with APB 25, recognized the impact of restricted stock in its reported financial results. Accordingly, the Company's income before income taxes and net income for the three months ended October 2, 2005, are $7.9 million and $5.5 million lower, respectively than if the Company had continued to account for share-based compensation under APB 25. These amounts represent solely the impact of stock options and the employee stock purchase plan since restricted stock is accounted for similarly under both APB 25 and SFAS 123R.

During the first quarter of fiscal 2006, the Company capitalized $1.2 million in inventory related to stock-based compensation for stock option grants that were made to manufacturing personnel. As a result of adopting SFAS 123R, the shares used in calculating diluted earnings per share increased 2.5 million shares as compared to the diluted shares calculated under APB 25 due to the diluted shares calculation under the treasury stock method of SFAS 123R. As of October 2, 2005 there was approximately $121.0 million of total unrecognized stock-based compensation cost related to share-based payments granted under the Company's stock option plans that will be recognized over a period of five years. Future grants will add to this total whereas quarterly amortization and the vesting of the existing grants will reduce this total.

The table below outlines the effects of total stock based compensation for the first quarter of fiscal 2006 and 2005:

	October 2, 2005	September 26, 2004
Net income	$ 99,181	$ 103,476
Stock-based compensation	13,338	3,249
Tax effect	(4,068)	(1,007)
Net income without stock-based compensation	$ 108,451	$ 105,718
Basic EPS with stock-based compensation	$0.32	$0.34
Shares used in basic EPS with stock-based compensation	306,336	308,201
Diluted EPS with stock-based compensation	$0.31	$0.33
Shares used in diluted EPS with stock-based compensation	315,940	316,918
Basic EPS without stock-based compensation	$0.35	$0.34
Shares used in basic EPS without stock-based compensation	306,336	308,201
Diluted EPS without stock-based compensation	$0.35	$0.33
Shares used in diluted EPS without stock-based compensation	313,429	316,918

Prior to the adoption of SFAS 123R, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the Statement of Cash Flows. SFAS 123R requires the cash flows resulting from the tax benefits from tax deductions in excess of deferred tax asset (hypothetical and actual) recorded for stock compensation costs (excess tax benefits) to be classified as financing cash flows. The $3.5 million excess tax benefit classified as a financing cash inflow for the quarter ended October 2, 2005 would have been classified as an operating cash inflow if the Company had not adopted SFAS 123R.

The Company issues new shares of common stock upon exercise of stock options. During the first quarter of fiscal year 2006 0.6 million stock options were exercised for a gain (aggregate intrinsic value) of $14.3 million determined as of the date of option exercise.

Determining Fair Value

The fair value of each option award is estimated on the date of grant using the Black Scholes option-pricing model that uses the assumptions in the following table. Expected volatilities are based on implied volatilities from traded options on the Company’s stock. Expected volatility was lower in the first quarter of fiscal year 2006 when compared to the same period in the previous fiscal year as the Company changed its expected volatility assumption from historical volatility to implied volatility during fiscal 2005. The Company believes that implied volatility is more reflective of market conditions and a better indicator of expected volatility than historical volatility. The Company uses the simplified calculation of expected life, described in the SEC’s Staff Accounting Bulletin 107, as the Company shortened the contractual life of employee stock options from ten years to seven years. The dividend yield is determined by dividing the expected per share dividend during the coming year by the average fair market value of the stock during the quarter. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted-average grant date fair value of options granted during the first quarter of fiscal 2006 and 2005 using the below assumptions were $11.68 and $24.03, respectively. The estimated fair value of the employee stock options are amortized to expense using the straight-line method over the vesting period.

	October 2,	September 26,

	2005	2004
Expected lives in years	4.88	6.99
Expected volatility	30.0%	65.0%
Dividend yields	1.0%	0.9%
Risk free interest rates	3.8%	3.1%

Pro-forma Disclosures

As stated above, the Company implemented SFAS 123R in its financial statements for the three-month period ended October 2, 2005 and was not required to restate results for prior periods. However, the following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provision of SFAS 123 to options granted under the Company's stock option plans for the first quarter of fiscal 2005. For the quarter ended September 26, 2004 stock-based compensation for restricted stock grants resulted in a decrease to income before income taxes of $3.2 million and a decrease to net income of $2.2 million. For purposes of the pro forma disclosure, the value of the options is estimated using the Black Scholes option-pricing model and amortized to expense straight-line, over the options' vesting periods. Note that the below pro forma disclosures are provided for the first quarter of fiscal 2005 only because employee stock options were not accounted for using the fair value method during that period. When the Company presents its financial statements for first quarter of fiscal 2007, it will not present any comparative pro-forma disclosures because share-based payments will have been accounted for under SFAS 123R fair value method for the first quarter of both fiscal year 2006 and 2007.

	Thee months ended September 26, 2004
Net income as reported	$ 103,476
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	2,242
Deduct: Total stock-based compensation expense determined under the fair value method, net of tax	(19,950)
Pro forma net income	$ 85,768
Earning per share:	
Basic-as reported	$ 0.34
Basic-pro forma	$ 0.28
Diluted-as reported	$ 0.33
Diluted-pro forma	$ 0.27

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	
	October 2, 2005	September 26, 2004
Net income	$ 99,181	$ 103,476
(Increase) and decrease in unrealized losses on available-for-sale securities	(1,283)	1,538
Total comprehensive income	$ 97,898	$ 105,014

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.

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

Critical Accounting Policies

There have been no significant changes to the Company’s critical accounting policies during the quarter ended October 2, 2005 other than the policy associated with the adoption of SFAS 123R noted below as compared to the previous disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations included in the Company’s Annual Report on Form 10-K for the fiscal year ended July 3, 2005.

Accounting for Stock-Based Compensation

Beginning in fiscal 2006, the Company accounts for stock-based compensation arrangements in accordance with the provisions of SFAS 123R. Under SFAS 123R, compensation cost is calculated on the date of grant using the Black Scholes method. The compensation cost is then amortized straight-line over the vesting period. The Company uses Black Scholes in determining the fair value of its stock options at the date of grant. Black Scholes requires the Company to estimate key assumptions such as expected term, volatility and forfeiture rates that determine the stock options fair value. The estimate of these key assumptions is based on historical information and judgment regarding market factors and trends. If actual results are not consistent with the Company’s assumptions and judgments used in estimating the key assumptions, the Company may be required to increase or decrease compensation expense or income tax expense, which could be material to its results of operations.

Results of Operations

The table below states the income statement items for the three months ended October 2, 2005 and September 26, 2004 as a percentage of net sales and provides the percentage change in absolute dollars of such items comparing the interim period ended October 2, 2005 to the corresponding period from the prior fiscal year:

	Three Months Ended		
	October 2, 2005	September 26, 2004	Increase/ (Decrease)
Net sales	100.0%	100.0%	1%
Cost of sales	21.9	21.7	2
Gross profit	78.1	78.3	1
Expenses:			
Research and development	14.8	12.1	23
Selling, general and administrative	12.1	9.1	35
	26.9	21.2	28
Operating income	51.2	57.1	(9)
Interest income, net	4.5	2.1	113
Income before income taxes	55.7%	59.2%	(5)
Effective tax rate	30.5%	31.0%	

Net sales for the quarter ended October 2, 2005 were $256.0 million, an increase of $3.0 million or 1% over net sales of $253.0 million for the same quarter of the previous fiscal year. The average selling price (“ASP”) for the first quarter of fiscal year 2006 was $0.14 higher, at $1.55 per unit as compared to $1.41 per unit in the first quarter of fiscal year

2005. The increase in ASP is the result of a change in sales mix to products with higher prices. Geographically, international sales were $183.5 million or 72% of net sales, an increase of $0.4 million as compared to international sales of $183.1 million or 72% of net sales for the same period in fiscal year 2005. Internationally, sales to Rest of the World (ROW), which is primarily Asia excluding Japan, represented $106.4 million or 42% of net sales, while sales to Europe and Japan were $40.1 million or 16% of net sales and $37.0 million or 14% of net sales, respectively. Domestic sales were $72.5 million or 28% of net sales in the first quarter of fiscal year 2006 compared to $69.9 million or 28% of net sales in the same period in fiscal year 2005.

Gross profit was $200.0 million for the first quarter of fiscal year 2006, an increase of $1.8 million from the corresponding period of fiscal year 2005. Gross profit as a percentage of net sales decreased to 78.1% in the first quarter of fiscal year 2006 as compared to 78.3% for the same period in the previous fiscal year. The decrease in gross profit as a percentage of net sales was primarily due to the $0.7 million dollar increase in costs related to stock-based compensation. In addition to the $1.2 million of stock-based compensation that was expensed, the Company capitalized $1.2 million into inventory for grants issued to production employees causing the Company's inventory balance to increase $1.2 million.

Research and development ("R&D") expenses for the quarter ended October 2, 2005 were $37.8 million, an increase of $7.1 million or 23% over R&D expenses of $30.6 million for the same period in the previous fiscal year. The increase in R&D is primarily due to costs related to stock-based compensation, which increased $4.5 million. The increase in R&D was also due to a $2.4 million increase in compensation costs related to increases in employee headcount and annual merit increases, offset by $0.2 million decrease in profit sharing. In addition to compensation costs, the Company had a $0.4 million increase in other R&D related expenses.

Selling, general and administrative expenses ("SG&A") for the quarter ended October 2, 2005 were $31.2 million, an increase of $8.1 million or 35% over SG&A expenses of $23.1 million for the same period in the previous fiscal year. The increase in SG&A is primarily due to costs related to stock-based compensation, which increased $4.9 million. The increase in SG&A was also due to a $1.7 million increase in compensation costs related to increases in employee headcount and annual merit increases, offset by $0.3 million decrease in profit sharing. In addition to compensation costs, the Company had a $1.0 million increase in legal expenses. Lastly, other SG&A costs increased $0.8 million.

Interest income, net was $11.6 million for the first quarter of fiscal year 2006, an increase of $6.2 million from the corresponding period of fiscal year 2005. Interest income, net increased due to the increase in the average interest rate earned on the Company's higher average cash investment balance.

The Company's effective tax rate for the first quarter of fiscal year 2006 was 30.5% as compared to 31% in the corresponding period of fiscal 2005 due to temporary changes in the R&D credit. The tax rate is lower than the federal statutory rate primarily due to business activity in foreign jurisdictions with lower tax rates and tax-exempt interest income. The increase in the effective tax rate from 30% in the fourth quarter of fiscal 2005 to 30.5% in the current quarter is due to a minor decrease in the Company's offshore tax benefits.

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 July 3, 2005.

As forecasted, sales for the three-months ended October 2, 2005 were largely unchanged. During the quarter, bookings increased and cancellations were minor and the Company had a positive book to bill ratio. The Company's ending on-hand inventory at distributors is lean and lead times have remained unchanged at 4 to 6 weeks. However, there are general macro-economic concerns in the marketplace and accordingly customers in many end-markets are generally cautious and therefore tend to order just to current demand. On the other hand, the Company is well positioned at certain high-end consumer-based customers that are leaders in their fields that have positive business opportunities in their December quarter. Consequently, the Company estimates that the December quarters sales and profits will grow in the 3% to 4% range.

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 October 2, 2005, cash, cash equivalents and short-term investments totaled $1,834.5 million, and working capital was $1,830.7 million.

Accrued payroll and related benefits totaled $44.9 million at the end of the first quarter of fiscal year 2006, a decrease of $18.8 million from the fourth quarter of fiscal year 2005. The decrease is due to the payment of profit sharing. The Company accrues for profit sharing on a quarterly basis while distributing payouts to employees on a semi-annual basis during the first and third quarters. Income taxes payable totaled $98.7 million at the end of the first quarter of fiscal year 2006, an increase of $30.3 million over the fourth quarter of fiscal year 2005. The increase is due to the timing of payments to the taxing authorities within the year.

During the first three months of fiscal year 2006, the Company generated $143.9 million of cash from operating activities, $9.4 million in proceeds from common stock issued under employee stock plans, $3.5 million from excess tax benefits received on the exercise of stock option and $36.2 million from net sales and maturities of short-term investments.

During the first three months of fiscal year 2006, significant cash expenditures included repurchasing $64.5 million of common stock, payments of $30.8 million in cash dividends to stockholders, representing $0.10 per share, and purchases of $15.9 million for capital assets. In October, the Company's Board of Directors declared a quarterly cash dividend of $0.10 per share to be paid during the December quarter of fiscal 2006. The payment of future dividends will be based on quarterly financial performance.

As of October 2, 2005, the Company had no off-balance sheet financing arrangements. At the end of fiscal year 2005, the Company entered into a purchase agreement of approximately $22.0 million for two buildings it currently leases. The agreement is contingent upon the owner selling a third building that the Company currently leases. The effect of the agreement will not be significant to the Company's overall results of operations or financial position. The Company does not have any other significant contractual obligations outside of operating leases.

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 July 3, 2005. 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 year 2005. At October 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, with the participation of the Chief Executive Officer and the Chief Financial Officer, evaluated 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 first quarter of fiscal year 2006 that has materially affected, or is reasonably likely to materially affect, its internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None.

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 (July 4, 2005 - July 31, 2005)	--	--	--	14,626,182
Month #2 (August 1, 2005 - August 28, 2005)	1,656,165	$ 38.91	1,656,165	12,970,017
Month #3 (August 29, 2005 - October 2, 2005)	--	--	--	12,970,017
Total	1,656,165	$ 38.91	1,656,165	12,970,017

(1) On July 26, 2005, the Company's Board of Directors authorized the Company to purchase up to 10,000,000 shares of its common stock in the open market over a two-year period.

Item 3. Defaults Upon Senior Securities

None.

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

None.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit Number	**Description**
3.4 (1)	Amended and Restated Bylaws of Registrant
10.50 (2)	Amended and Restated Employment Agreement between Registrant and Robert H. Swanson, Jr. dated October 18, 2005
10.53	2005 Equity Incentive Plan, form of Stock Option Agreement, form of Restricted Stock Agreement, and form of Restricted stock Unit Agreement
10.54 (3)	2005 Employee Stock Purchase Plan and enrollment form
31.1	Certification of Principal Executive Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Principal Financial Officer and Principal Accounting Officer pursuant to Exchange Act Rules 13a-14(a) and 15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification 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

(1) Incorporated by reference to the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on September 9, 2005.

(2) Incorporated by reference to the Registrant's current report on Form 8-K filed with the Securities and Exchange Commission on October 24, 2005

(3) Incorporated by reference to the Registrant's Statement on Form S-8 filed with the Securities and Exchange Commission on September 30, 2005

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: November 14, 2005

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