

**UNITED STATES  
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 September 30, 2007

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 0-14864

**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)

**(408) 432-1900**

(Registrant's telephone number, including area code)

**N/A**

(Former name, former address and former fiscal year, if changed since last report)

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 a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

Shares outstanding of the Registrant's common stock:

Class Common Stock, \$0.001 par value per share	Outstanding at October 26, 2007 223,478,899 shares
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**LINEAR TECHNOLOGY CORPORATION**  
**FORM 10-Q**  
**THREE MONTHS ENDED SEPTEMBER 30, 2007**

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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	
	September 30, 2007	October 1, 2006
Revenues	\$ 281,488	\$ 292,116
Cost of sales <sup>(1)</sup>	64,061	64,327
Gross profit	217,427	227,789
Expenses:		
Research and development <sup>(1)</sup>	47,780	46,519
Selling, general and administrative <sup>(1)</sup>	32,781	34,425
	80,561	80,944
Operating income	136,866	146,845
Interest expense	(14,462)	(443)
Interest income	6,434	16,480
Income before income taxes	128,838	162,882
Provision for income taxes	37,363	50,493
Net income	\$ 91,475	\$ 112,389
Basic earnings per share	\$ 0.41	\$ 0.37
Shares used in the calculation of basic earnings per share	224,093	302,104
Diluted earnings per share	\$ 0.40	\$ 0.37
Shares used in the calculation of diluted earnings per share	229,230	307,740
Cash dividends per share	\$ 0.18	\$ 0.15

<sup>(1)</sup> Includes stock-based compensation charges as follows:

Cost of sales	\$ 1,897	\$ 2,762
Research and development	7,747	8,902
Selling, general and administrative	4,300	5,422

See accompanying notes

LINEAR TECHNOLOGY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except par value)

	September 30, 2007 (unaudited)	July 1, 2007 (1)
Assets		
Current assets:		
Cash and cash equivalents	\$ 135,658	\$ 156,494
Short-term investments	616,509	476,813
Accounts receivable, net of allowance for doubtful accounts of \$1,770 (\$1,775 at July 1, 2007)	134,032	130,546
Inventories:		
Raw materials	4,079	4,318
Work-in-process	37,162	35,002
Finished goods	10,172	11,755
Total inventories	51,413	51,075
Deferred tax assets	29,162	35,038
Prepaid expenses and other current assets	12,922	11,138
Total current assets	979,696	861,104
Property, plant and equipment, at cost:		
Land, buildings and improvements	203,973	201,547
Manufacturing and test equipment	452,053	449,175
Office furniture and equipment	3,351	3,332
	659,377	654,054
Accumulated depreciation and amortization	(398,206)	(387,454)
Net property, plant and equipment	261,171	266,600
Other non current assets	93,604	91,153
Total assets	\$ 1,334,471	\$ 1,218,857
Liabilities and stockholders' deficit		
Current liabilities:		
Accounts payable	\$ 11,324	\$ 11,161
Accrued payroll and related benefits	46,768	54,470
Deferred income on shipments to distributors	39,186	39,946
Income taxes payable	11,037	45,327
Other accrued liabilities	44,013	28,965
Total current liabilities	152,328	179,869
Deferred tax liabilities	19,386	12,917
Convertible senior notes	1,700,000	1,700,000
Other long-term liabilities	98,686	34,036
Total liabilities	1,970,400	1,926,822
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, 223,200 shares issued and outstanding at September 30, 2007 (229,655 shares at July 1, 2007)	223	229
Additional paid-in capital	932,401	901,906
Accumulated other comprehensive income, net of tax	751	(647)
Accumulated deficit	(1,569,304)	(1,609,453)
Total stockholders' deficit	(635,929)	(707,965)
Total liabilities and stockholders' deficit	\$ 1,334,471	\$ 1,218,857

(1) Derived from audited financial statements at July 1, 2007  
See accompanying notes

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

	Three Months Ended	
	September 30, 2007	October 1, 2006
Cash flow from operating activities:		
Net income	\$ 91,475	\$ 112,389
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,591	12,897
Tax benefit received on the exercise of stock-based awards	1,890	364
Stock-based compensation	13,944	17,086
Change in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(3,486)	34
Increase in inventories	(338)	(3,054)
Decrease in prepaid expenses, other current assets and deferred tax assets	3,541	364
Increase in long-term assets	(1,252)	(1,569)
Increase (decrease) in accounts payable, accrued payroll and other accrued liabilities	6,099	(16,607)
Decrease in deferred income on shipments to distributors	(760)	(6,989)
Increase in income taxes payable	31,373	27,520
Cash provided by operating activities	<u>155,077</u>	<u>142,435</u>
Cash flow from investing activities:		
Purchase of short-term investments	(283,741)	(398,924)
Proceeds from sales and maturities of short-term investments	146,262	288,570
Purchase of property, plant and equipment	(5,323)	(24,591)
Cash used in investing activities	<u>(142,802)</u>	<u>(134,945)</u>
Cash flow from financing activities:		
Excess tax benefit received on exercise of stock-based awards	3,142	1,746
Issuance of common stock under employee stock plans	12,373	8,267
Purchase of common stock	(7,880)	(93,074)
Payment of cash dividends	(40,746)	(45,997)
Cash used in financing activities	<u>(33,111)</u>	<u>(129,058)</u>
Decrease in cash and cash equivalents	<u>(20,836)</u>	<u>(121,568)</u>
Cash and cash equivalents, beginning of period	156,494	541,060
Cash and cash equivalents, end of period	<u>\$ 135,658</u>	<u>\$ 419,492</u>

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 month period ended September 30, 2007 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 1, 2007 included in the Company's Annual Report on Form 10-K. The accompanying balance sheet at July 1, 2007 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 years 2008 and 2007 are 52-week years.
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 and restricted stock 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:

<i>In thousands, except per share amounts</i>	Three Months Ended	
	September 30, 2007	October 1, 2006
Numerator - Net income	\$ 91,475	\$ 112,389
Denominator for basic earnings per shares-weighted average shares	224,093	302,104
Effect of dilutive securities – employee stock options and restricted stock	5,137	5,636
Denominator for diluted earnings per share	229,230	307,740
Basic earnings per share	\$ 0.41	\$ 0.37
Diluted earnings per share	\$ 0.40	\$ 0.37

4. Stock-Based Compensation

***Equity Incentive Plans***

The Company has two equity incentive plans under which the Company may grant incentive stock options, nonstatutory stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares and performance units. Under the plans (the 2005 Equity Incentive Plan and the 2001 Nonstatutory Stock Option Plan), the Company may grant awards to employees, executive officers, directors and consultants who provide services to the Company. To date, the Company has only granted nonstatutory stock options, restricted stock and restricted stock units from these plans. At September 30, 2007, 15.9 million shares were available for grant under the 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 restricted stock awards generally vest annually over a five year period (20% per year) based upon continued employment with the Company.

In addition, the Company has an Employee Stock Purchase Plan (“ESPP”) that is currently available to employees only. The ESPP permits eligible employees to purchase common stock through payroll deductions at 85% of the fair market value of the common stock at the end of each six-month offering period. The offering periods commence on approximately May 1 and November 1 of each year. At September 30, 2007, 0.7 million shares were available for issuance under the ESPP.

### ***Accounting for Stock-Based Compensation***

The Company accounts for stock-based compensation arrangements in accordance with the provisions of Financial Accounting Standards 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 stock options as determined using the Black-Scholes valuation model. The Company amortizes the compensation cost straight-line over the vesting period, which is generally five years. The Black-Scholes valuation model requires the Company to estimate key assumptions such as expected term, volatility and forfeiture rates to determine the fair value of a stock option. The estimate of these key assumptions is based on historical information and judgment regarding market factors and trends.

As of September 30, 2007, there was approximately \$158.3 million of total unrecognized stock-based compensation cost related to share-based payments granted under the Company’s stock-based compensation plans that will be recognized over a period of approximately 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 three months ended September 30, 2007 and October 1, 2006:

<i>In thousands, except per share amounts</i>	Three Months Ended	
	September 30, 2007	October 1, 2006
Stock-based compensation	\$ 13,944 <sup>(1)</sup>	\$ 17,086 <sup>(1)</sup>
Tax effect of stock-based compensation	(4,044)	(5,297)
Net effect on net income	<u>\$ 9,900</u>	<u>\$ 11,789</u>
Effect on earnings per share		
Basic	<u>\$ 0.04</u>	<u>\$ 0.04</u>
Diluted	<u>\$ 0.04</u>	<u>\$ 0.04</u>
Shares used in basic EPS	<u>224,093</u>	<u>302,104</u>
Shares used in diluted EPS	<u>229,230</u>	<u>307,740</u>

<sup>(1)</sup> Stock-based compensation includes the effects of stock options, restricted stock, restricted stock units and the ESPP.

The Company issues new shares of common stock upon exercise of stock options. For the three months ended September 30, 2007, 0.8 million stock options were exercised for a gain (aggregate intrinsic value) of \$14.9 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 valuation model that uses the assumptions in the following table. Expected volatilities are based on implied volatilities from traded options on the Company’s stock. 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 in the third quarter of fiscal year 2005. 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 estimated fair value of the employee stock options is amortized to expense using the straight-line method over the vesting period.

The following assumptions were used in valuing the options for the three months ended September 30, 2007 and October 1, 2006:

	Three Months Ended	
	September 30, 2007	October 1, 2006
Expected lives in years	4.0	4.9
Estimated volatility	29.5%	30.7%
Dividend yields	2.0%	1.9%
Risk-free interest rates	4.0%	4.6%
Weighted-average grant date fair value of options granted	\$8.89	\$8.85

### ***Stock Options***

The following table summarizes stock option activity and related information under all stock option plans:

	Stock Options Outstanding	Weighted- Average Exercise Price
Outstanding options, July 1, 2007	30,207,097	\$33.87
Granted	60,000	36.52
Forfeited and expired	(230,150)	39.96
Exercised	(794,838)	16.37
Outstanding options, September 30, 2007	29,242,109	\$34.30
Vested and expected to vest as of September 30, 2007	28,434,179	\$34.24
Options vested and exercisable at: September 30, 2007	25,891,844	\$34.05

### ***Restricted Stock***

The following table summarizes the Company's restricted stock and restricted stock unit activity under all equity award plans:

	Restricted Awards Outstanding	Weighted- Average Grant-Date Fair Value
Nonvested at July 1, 2007	4,182,321	\$34.45
Granted	629,188	36.52
Vested	(703,790)	34.94
Forfeited	(49,400)	34.04
Nonvested at September 30, 2007	4,058,319	\$34.69

## 5. Comprehensive Income

Accumulated other comprehensive income consists of unrealized gains or losses on available-for-sale securities. The components of comprehensive income were as follows:

<i>In thousands</i>	Three Months Ended	
	September 30, 2007	October 1, 2006
Net income	\$ 91,475	\$ 112,389
Changes in unrealized gains or losses on available-for-sale securities	1,398	3,425
Total comprehensive income	<u>\$ 92,873</u>	<u>\$ 115,814</u>

## 6. Convertible Senior Notes

During the fourth quarter of fiscal year 2007, the Company issued \$1.0 billion aggregate principal amount of its 3.00% Convertible Senior Notes due May 1, 2027 (the “2027A notes”) and \$700 million aggregate principal amount of its 3.125% Convertible Senior Notes due May 1, 2027 (the “2027B notes” and, together with the 2027A notes, the “Notes”) to qualified institutional buyers pursuant to Rule 144A under the Securities Act of 1933. The Notes are the Company’s unsubordinated, unsecured obligations and rank equal in right of payment with all of the Company’s other existing and future unsubordinated, unsecured obligations; the Notes rank junior in right of payment to any of the Company’s secured obligations to the extent of the value of the collateral securing such obligations; and the Notes are effectively subordinated in right of payment to all existing and future indebtedness and liabilities of our subsidiaries. There is not a sinking fund in connection with the Notes. The Company received net proceeds from the issuance of the Notes of \$1,678.0 million after the deduction of issuance costs of \$22.0 million. The Company used the entire net proceeds of the offering to fund a portion of its repurchase of \$3.0 billion of its common stock pursuant to an accelerated stock repurchase transaction it entered into with an affiliate of the initial purchaser of the Notes simultaneously with the offering of the Notes. The debt issuance costs are recorded in other non-current assets and are being amortized to interest expense on a straight-line basis over the earliest redemption date of November 1, 2010 (3.5 years for the 2027B notes) and May 1, 2014 (7 years for the 2027A notes). Interest is payable semiannually in arrears on May 1 and November 1, beginning on November 1, 2007.

Upon conversion of the Notes, the Company will pay the holder cash equal to the lesser of the aggregate principal amount and the conversion value of the Notes being converted. If the conversion value exceeds \$1,000, the Company must also deliver cash or common stock or a combination of cash and common stock, at the Company’s option for the conversion value in excess of \$1,000 (“conversion spread”). The conversion value of the Notes is determined based on a daily conversion value calculated on a proportionate basis for each trading day in a 20 trading day conversion reference period. For purposes of calculating earnings per share, there would be no adjustment to the shares in the earnings per share calculation for the cash settled portion of the Notes, as that portion of the debt instrument will always be settled in cash. The conversion spread will be included in the shares for the calculation of diluted earnings per share to the extent the conversion price is dilutive under the treasury stock method. At September 30, 2007, no shares related to the Notes were included in the computation of diluted earnings per share. The initial effective conversion rate of the 2027A notes is 20 shares of common stock per \$1,000 principal amount of the 2027A notes (which is equivalent to an initial effective conversion price of approximately \$50.00 per share), subject to adjustment upon the occurrence of certain events as described in the Indenture for the 2027A notes. The initial effective conversion rate of the 2027B notes is 19.8138 shares of common stock per \$1,000 principal amount of the 2027B notes (which is equivalent to an initial effective conversion price of approximately \$50.47 per share), subject to adjustment upon the occurrence of certain events as described in the Indenture for the 2027B notes. The Notes will bear contingent interest equal to 0.25% commencing May 1, 2014 for the 2027A notes and November 1, 2010 for the 2027B notes under certain circumstances. The Company may redeem the 2027A notes for cash at any time on or after May 1, 2014, and holders may require the Company to repurchase the 2027A notes for cash on specified dates and upon a fundamental change. The Company may redeem the 2027B notes for cash at any time on or after November 1, 2010, and holders may require the Company to repurchase the 2027B notes for cash on specified dates and upon a fundamental change.

## 7. 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 product warranty 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 for certain 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.

#### 8. Recent Accounting Pronouncements

In August 2007, the Financial Accounting Standards Board ("FASB") exposed for comment FASB Staff Position ("FSP") APB 14-a; a clarification on the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FASB is considering a requirement to allocate a portion of the debt to the embedded conversion feature, thereby creating an original issue discount on the carrying value of the debt portion of the instrument. This original issue discount would subsequently be amortized as interest expense over the term of the instrument, resulting in an increase to the Company's reported interest expense. If implemented, this non-cash charge could have an impact of roughly \$0.03 per share on the Company's quarterly earnings per share. The proposed FSP would be effective for fiscal years beginning after December 15, 2007. Retroactive application would be required for all periods presented.

#### 9. Accounting Changes

Effective at the beginning of the first quarter of fiscal year 2008, the Company adopted Emerging Issue Task Force ("EITF") No. 06-2, "Accounting for Sabbatical, Leave and Other Similar Benefits Pursuant to FASB Statement No. 43" ("EITF 06-2"). EITF 06-2 requires companies to accrue the cost of such compensated absences over the requisite service period. The Company's Sabbatical Program provides for six weeks of paid leave for salaried (exempt) employees in the United States upon the completion of five years of service and four weeks of paid leave for nonexempt employees in the United States upon the completion of five years of service. Prior to the adoption of the EITF 06-2, the Company accounted for the above program only after the completion of the five years by the eligible employees because none of the benefits vested or accreted to the employee until completion of the full five years of service. The Company adopted EITF 06-2 through a cumulative-effect adjustment, resulting in an additional long-term liability of \$8.2 million and an increase to accumulated deficit of \$5.2 million net of taxes at the beginning of the first quarter of fiscal year 2008.

The Company also adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"), and related guidance in the first quarter of 2008. See "Note 10: Income Taxes" for further discussion.

The implementation of EITF 06-2 and FIN 48 did not have a material impact on the results of operations in the current quarter.

#### 10. Income Taxes

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an Interpretation of FASB Statement No. 109" ("FIN 48") to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes by describing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. Under FIN 48, the Company must recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by the taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has a greater than fifty percent likelihood of being realized upon ultimate resolution. FIN 48 was adopted by the Company effective July 2, 2007. The cumulative effect of change in accounting principle as a result of the Company's reassessment of its tax positions in accordance with FIN 48 has been recorded as a decrease of \$1.6 million to accumulated deficit and a decrease in income taxes payable of \$1.6 million as of July 2, 2007.

After adoption of FIN 48 at July 2, 2007, the Company had \$57.9 million of unrecognized tax benefits which, if recognized, would favorably affect the effective income tax rate in future periods.

The Company's policy is to recognize interest and/or penalties related to income tax matters in income tax expense. Included in the liability for unrecognized tax benefits is \$6.0 million accrued for interest, net of federal benefit, and \$0 accrued for penalties at July 2, 2007.

During the quarter ended September 30, 2007, the Company and the California Franchise Tax Board settled certain tax matters, primarily related to the research and development tax credit, related to the examination of fiscal years 2000 through 2004. Upon settlement, the Company recognized a tax benefit during the quarter from the recognition of \$1.6 million of unrecorded tax benefits associated with the research and development credit for those fiscal years.

During the quarter ended September 30, 2007, the Company received a Notice of Deficiency from the Internal Revenue Service (IRS) related to export tax benefits the Company claimed as its extraterritorial income (ETI) exclusion under the Internal Revenue Code. The IRS seeks to recover in full the Company's ETI benefit claimed on its tax returns for fiscal years 2002 through 2006 totaling \$56.5 million plus accrued interest. The Company disputes the proposed adjustments and intends to pursue the matter through applicable IRS and judicial procedures as appropriate. It is reasonably possible that this matter may be resolved within the next twelve months and that the related unrecognized tax benefits for this tax position may change from those recorded as liabilities for uncertain tax positions in our financial statements at September 30, 2007. However, based on the current status of this matter, it is not possible to estimate the effect of such changes, if any, to previously unrecognized tax benefits and there can be no assurance that the resolution of this matter will not have a material effect on the financial position and/or results of operations of future periods.

## 11. Contingencies

### *Litigation*

The Company is subject to various legal proceedings and claims that arise in the ordinary course of business on a wide range of matters, including, among others, patent suits and employment claims. The Company does not believe that any such current suits will have a material impact on its business or financial condition. However, current lawsuits and any future lawsuits will divert resources and could result in the payment of substantial damages.

The Company previously disclosed that the Securities and Exchange Commission ("SEC") and the United States Justice Department had initiated informal inquiries into the Company's stock option granting practices. The Company also disclosed that on September 5, 2006, it received an Information Document Request from the Internal Revenue Service ("IRS") concerning its stock option grants and grant practices. On October 1, 2007, the Company received notice from the SEC that the investigation concerning the Company's historical stock option grant practices had been completed and that no enforcement action was recommended. The Company has not received any further requests from the Department of Justice.

Certain current and former directors and officers of the Company have been named as defendants in two shareholder derivative actions filed in the United States District Court for the Northern District of California, which have been consolidated under the caption *In re Linear Technology Corporation Shareholder Derivative Litigation* (the "Federal Action"), in three consolidated shareholder derivative actions filed in the Superior Court for Santa Clara County, California, also captioned *In re Linear Technology Corporation Shareholder Derivative Litigation* (the "California State Action"), and in a shareholder derivative action filed in Delaware Chancery Court, captioned *Weiss v. Swanson* (the "Delaware Action"). The Company has been named in each of these Actions as a nominal defendant against which no recovery is sought. The Company has engaged its outside counsel to represent it in the government inquiries and pending lawsuits.

Plaintiffs in the Federal Action allege that the individual defendants breached their fiduciary duties to the Company in connection with the alleged backdating of stock option grants during the period from 1995 through 2002, and that certain defendants were unjustly enriched. The Federal plaintiffs have also asserted derivative claims against the individual defendants based on alleged violations of Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act"), and Rule 10b-5 promulgated thereunder. Plaintiffs seek to recover unspecified money damages, disgorgement of profits and benefits, equitable relief and attorneys' fees and costs. The Company moved to dismiss the Federal Action on the ground that the plaintiffs had not made a pre-litigation demand on the Company's Board of Directors and had not demonstrated that such a demand would have been futile; the individual defendants joined in that motion, and also moved to dismiss the complaint for failure to state a claim against each of them. On December 7, 2006, the District Court granted the Company's motion; the Court did not address the individual defendants' motion. Pursuant to the Court's Order, plaintiffs filed an amended complaint on January 5, 2007. The amended complaint asserts derivative claims against the individual defendants for alleged violations of Sections 10(b), 14(a), and 20(a) of the Exchange Act, and Rules 10b-5 and 14a-9 promulgated thereunder. Following the filing of the amended complaint, the parties agreed to stay the Federal Action in favor of permitting the California State Action to proceed. The District Court entered an order staying the Federal Action on February 14, 2007.

Initially, plaintiffs in the California State Action asserted claims against the individual defendants for breach of fiduciary duty and aiding and abetting one another's alleged breaches of duty in connection with the alleged backdating of stock option grants during the period from 1995 through 2002. Plaintiffs also alleged that certain defendants were unjustly enriched, that defendants wasted corporate assets, and that the officer defendants engaged in insider trading in violation of California law. Plaintiffs sought to recover unspecified money damages, disgorgement of profits and benefits, restitution, rescission of option contracts, imposition of a constructive trust over option contracts, and attorneys' fees and costs. On October 2, 2006, the Company filed a motion to stay the California State Action in favor of the earlier-filed Federal Action. The defendant directors and officers joined in that motion. The individual defendants also demurred to the California State Action, on the basis that the operative complaint failed to state a cause of action as to each of them. Following the stay of the Federal Action, pursuant to the parties' stipulation, the California State Court permitted the Company to withdraw the Motion to Stay Proceedings. Thereafter, the Company demurred to the complaint on the ground that plaintiffs had not demonstrated that a pre-suit demand would have been futile. The individual defendants joined in that demurrer. Following a hearing on July 13, 2007, the Court sustained the Company's demurrer, and granted the plaintiffs leave to amend the complaint. The Court did not address the individual defendants' demurrer.

On August 13, 2007, plaintiffs in the California State Action filed an amended complaint, asserting claims against the individual defendants for breach of fiduciary duty and aiding and abetting one another's alleged breaches of duty in connection with the grant of allegedly "spring-loaded" and "bullet-dodged" stock options during the period from 1995 through 2005. The amended complaint also alleges that the individual defendants were unjustly enriched, and engaged in insider trading in violation of the California Corporations Code, and that the director defendants wasted corporate assets. The amended complaint seeks recovery from the individual defendants of unspecified damages, disgorgement of profits and benefits, restitution, rescission of option contracts and imposition of constructive trust over executory option contracts, in addition to attorneys' fees and costs. On September 12, 2007, the Company filed a demurrer to the amended complaint on the ground that plaintiffs had failed to make a pre-suit demand or to demonstrate that demand would have been futile. The individual defendants filed a demurrer to the amended complaint on the grounds that it failed to state a cause of action as to each of them. The parties have stipulated to the stay of the California State Action pending the outcome of the hearing on the motion to dismiss in the previously-filed Delaware Action, which also asserted claims for breach of duty based on allegedly spring-loaded and bullet-dodged option grants.

On March 23, 2007, certain current and former directors and officers of the Company were named as defendants in the Delaware Action. Plaintiff in the Delaware Action alleges that the defendant directors granted "spring-loaded" and "bullet-dodged" stock options to certain of the Company's officers and directors during the period from 1996 through 2005. Plaintiff asserts claims for breach of fiduciary duty against all of the defendants and claims for unjust enrichment against those defendants who received challenged option grants. Plaintiff seeks to recover unspecified money damages, disgorgement of profits and benefits, restitution, rescission of certain defendants' option contracts, imposition of a constructive trust over the option contracts, and attorneys' fees and costs. The defendants moved to dismiss the Delaware Action on May 25, 2007. Rather than respond to the defendants' motion, plaintiff filed an amended complaint on August 10, 2007, making substantially the same allegations as those in the original complaint. On September 19, 2007, Linear and the individual defendants filed a Motion to Dismiss the amended complaint on the grounds that plaintiff had failed to make a pre-suit demand on the Board or to plead facts demonstrating that demand would have been futile, and that the amended complaint fails to state a claim against each of the individual defendants. Plaintiff opposed the Motion to Dismiss on October 12, 2007. The defendants' reply memorandum was filed on October 29, 2007, and a hearing on the Motion to Dismiss has been scheduled for November 28, 2007.

The Company reviewed its historical option-granting practices and option grants with the assistance of outside counsel and an independent forensic accounting firm. The primary scope of the review covered the periods calendar year 1995 through 2006. Based on the findings of the review, the Company has concluded that there is no need to restate any previously filed financial statements. The review found no evidence of fraud or misconduct of any kind in the Company's practices in granting of stock options and as mentioned above, on October 1, 2007, the Company received notice from the SEC that the investigation concerning the Company's historical stock option grant practices had been completed and that no enforcement action was recommended.

## 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 September 30, 2007 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 1, 2007.

### Results of Operations

The table below summarizes the income statement items for the three months ended September 30, 2007 and October 1, 2006 as a percentage of total revenue and provides the percentage change in absolute dollars of such items comparing the interim period ended September 30, 2007 to the corresponding period from the prior fiscal year:

	Three Months Ended		
	September 30, 2007	October 1, 2006	Increase/ (Decrease)
Revenues	100.0%	100.0%	(4%)
Cost of sales	22.8	22.0	-
Gross profit	77.2	78.0	(5)
Expenses:			
Research and development	17.0	15.9	3
Selling, general and administrative	11.6	11.8	(5)
	28.6	27.7	-
Operating income	48.6	50.3	(7)
Interest expense	(5.1)	(0.2)	3165
Interest income	2.3	5.7	(61)
Income before income taxes	45.8%	55.8%	(21)
Effective tax rates	29.0%	31.0%	

Revenue for the quarter ended September 30, 2007 was \$281.5 million, a decrease of \$10.6 million or 4% from revenue of \$292.1 million for the same quarter of the previous fiscal year. The average selling price ("ASP") for the first quarter of fiscal year 2008 was relatively flat, at \$1.55 per unit as compared to \$1.57 per unit for the same quarter of the previous fiscal year. Geographically, international revenues were \$196.5 million or 70% of revenues, a decrease of \$6.5 million as compared to international revenues of \$203.0 million or 69% of revenues for the same quarter of the previous fiscal year. Internationally, revenues to Rest of the World ("ROW"), which is primarily Asia excluding Japan, represented \$114.5 million or 41% of revenues, while sales to Europe and Japan were \$48.3 million or 17% of revenues and \$33.7 million or 12% of revenues, respectively. Domestic revenues were \$85.0 million or 30% of revenues in the first quarter of fiscal year 2008 a decrease of \$4.1 million, from \$89.1 million or 31% of revenues in the same period in fiscal year 2007.

During the first quarter of fiscal year 2008 the Company had one set of significant stock option grants that became fully vested after five years and one significant set of restricted stock grants that became fully vested after three years. As a result, the Company had lower stock-based compensation charges in cost of sales; research and development; and selling, general and administrative expense line items when compared to the first quarter of fiscal year 2007. Future stock grants will add to stock-based compensation charges whereas completion of vesting of previous grants will decrease stock-based compensation charges. Unvested stock option and restricted stock grants generally vest straight-line over a five year period.

Gross profit was \$217.4 million for the first quarter of fiscal year 2008, a decrease of \$10.4 million from the same period of fiscal year 2007. Gross profit as a percentage of revenue decreased to 77.2% of revenue in the first quarter of fiscal year 2008 as compared to 78.0% of revenue for the same period in the previous fiscal year. The decrease in gross profit as a percentage of revenue for the three month period ended September 30, 2007 was primarily due to spreading marginally higher fixed costs over a lower revenue base and due to a slight decrease in the ASP as mentioned above, both of which were partially offset by a decrease in costs related to stock-based compensation.

Research and development (“R&D”) expenses for the quarter ended September 30, 2007 were \$47.8 million, an increase of \$1.3 million or 3% over R&D expenses of \$46.5 million for the same period in the previous fiscal year. The increase in R&D was due to a \$2.7 million increase in compensation costs related to employee headcount and annual merit. Offsetting these increases to R&D was a \$1.2 million decrease in stock-based compensation and \$0.2 million decrease in employee profit sharing.

Selling, general and administrative expenses (“SG&A”) for the quarter ended September 30, 2007 were \$32.8 million, a decrease of \$1.6 million or 5% over SG&A expenses of \$34.4 million for the same period in the previous fiscal year. The decrease in SG&A was due to a \$1.1 million decrease in stock-based compensation; lower legal expense of \$1.1 million; and lower advertising expense of \$0.5 million. Offsetting the decreases to SG&A, the Company had a \$1.2 million increase in compensation costs related to employee headcount and annual merit.

Interest expense for the three months ended September 30, 2007 was \$14.5 million, an increase of \$ 14.1 million over interest expense of \$0.4 million for the same period of the previous fiscal year. The increase in interest expense was due to the Company’s issuance of \$1.7 billion Convertible Senior Notes during the fourth quarter of fiscal year 2007 bearing interest at 3.0% and 3.125%. Total interest expense of \$14.5 million included \$14.1 million related to the convertible debt which was comprised of convertible debt interest, amortization of the convertible debt discount and amortization of service fees.

Interest income was \$6.4 million for the first quarter of fiscal year 2008, a decrease of \$10.1 million from interest income of \$16.5 million from the corresponding period of fiscal year 2007. Interest income decreased due to the decrease in the Company’s average cash and short-term investment balances as the Company used \$1.3 billion of its cash to fund a \$3.0 billion accelerated share repurchase (“ASR”) transaction during the fourth quarter of fiscal year 2007.

The Company’s effective tax rate for the first quarter of fiscal year 2008 was 29.0% as compared to 31.0% in the corresponding period of fiscal year 2007. The decrease in the effective tax rate was due to the reinstatement of the R&D tax credit legislation during the second quarter of fiscal year 2007 and an increase in foreign earnings in lower tax jurisdictions offset partially by lower export and domestic production tax benefits. In addition, the Company received a one-time tax benefit during the first quarter of fiscal year 2008 as the Company settled with the California Franchise Tax Board certain disputed research and development tax benefits for fiscal years 2000-2004. Accordingly, during the first quarter of fiscal year 2008, the Company released its remaining unrecognized tax benefits associated with this issue thereby benefiting the quarterly effective tax rate.

The Company’s effective tax rate is lower than the federal statutory rate of 35% primarily as a result of lower tax rates on the earnings of its wholly-owned foreign subsidiaries, principally in Singapore and Malaysia. The Company has a partial tax holiday through July 2015 in Malaysia and a partial tax holiday in Singapore through August 2011. In addition, the Company receives tax benefits from certain R&D spending and non-taxable interest income.

Net income decreased by \$20.9 million from the first quarter of fiscal year 2007, however diluted earnings per share (“EPS”) increased by \$0.03 per share. This anomaly occurred due to the Company entering into a \$3.0 billion accelerated share repurchase (“ASR”) transaction during the fourth quarter of fiscal year 2007. The ASR transaction was funded by \$1.3 billion of the Company’s own cash and \$1.7 billion of convertible debt. As a result, the Company’s first quarter results had both a decrease in interest income and an increase in interest expense when compared the first quarter of the previous fiscal year. However, shares used in the calculation of diluted EPS decreased by 78.5 million or 26% from the first quarter of fiscal year 2007. Consequently, the ASR transaction has been accretive to EPS as the impact of the reduced shares was greater than the increase in interest expense and lower interest 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, in Item 1A herein and in the Company’s Form 10-K for the fiscal year ended July 1, 2007.

The September quarter was a good quarter for the Company, as revenue, diluted EPS and operating margin all increased over the June quarter. The 11% increase in diluted EPS over the prior quarter followed a 12.5% sequential increase in diluted EPS in the quarter before that. These increases are partially due to the results of the ASR transaction the Company entered into during the fourth quarter of fiscal year 2007. Looking ahead to the December quarter, growth will be impacted by the usual seasonal slowdown in non-consumer businesses. However, overall order cancellations continue to be minor and the Company had a positive book to bill ratio during the first quarter of fiscal 2008. Inventory appears to be reasonably balanced in the marketplace. However, as the Company enters the end of the calendar year many customers, particularly contract manufacturers, minimize inventory balances during the

month of December. Consequently, given these factors, the Company expects revenues and diluted EPS for its fiscal second quarter to increase in the 1% to 4% range from the September quarter just completed.

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 September 30, 2007, cash, cash equivalents and short-term investments totaled \$752.2 million and working capital was \$827.4 million. Accounts receivable totaled \$134.0 million at the end of the first quarter of fiscal year 2007, an increase of \$3.5 million from the end of the fourth quarter of fiscal year 2007. The increase is primarily due to higher shipments. Accrued payroll and related benefits totaled \$46.8 million at the end of the first quarter of fiscal year 2008, a decrease of \$7.7 million from the fourth quarter of fiscal year 2007. The decrease is primarily 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 \$11.0 million at the end of the first quarter of fiscal year 2008, a decrease of \$34.3 million from the fourth quarter of fiscal year 2007 primarily due to the reclassification of \$57.8 million in unrecognized tax benefits to other long-term liabilities as a result of the implementation of FIN 48 during the first quarter of fiscal year 2008.

Other accrued liabilities of \$44.0 million increased \$15.0 million over the fourth quarter of fiscal year 2007 primarily due to accrued interest on the Company's convertible senior notes. The Company makes semi-annual interest payments during the second and fourth quarters. Other long-term liabilities of \$98.7 million increased \$64.7 million over the fourth quarter of fiscal year 2007 primarily due to the unrecognized tax benefit reclassification of \$57.8 million noted above and due to the implementation of EITF 06-2 which resulted in an \$8.2 million increase for accrued sabbaticals.

During the first three months of fiscal year 2008, the Company generated \$155.1 million of cash from operating activities, \$12.4 million in proceeds from common stock issued under employee stock plans and \$3.1 million from excess tax benefits received on the exercise of stock options.

During the first three months of fiscal year 2007, significant cash expenditures included \$137.5 million for net purchases of short-term investments, \$7.9 million for repurchases of common stock, payments of \$40.7 million for cash dividends to stockholders, representing \$0.18 per share, and purchases of \$5.3 million for capital assets. In October 2007, the Company's Board of Directors declared a cash dividend of \$0.18 per share. The \$0.18 per share dividend will be paid on November 28, 2007 to shareholders of record on November 16, 2007. The payment of future dividends will be based on financial performance.

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.

### **Off Balance-Sheet Arrangements**

As of September 30, 2007, the Company had no off-balance sheet financing arrangements.

### **Contractual Obligations**

In April 2007, the Company issued \$1.0 billion principal amount of 3.0% debentures due May 1, 2027 and \$0.7 billion principal amount of 3.125% debentures due May 1, 2027. The Company will pay cash interest at an annual rate of 3.0% and 3.125%,

respectively, payable semiannually on November 1 and May 1 of each year, beginning November 1, 2007. See Note 6 to the condensed consolidated financial statements, included in Part 1. "Financial Information," for additional information about the debentures.

### 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 1, 2007. 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 2007. At September 30, 2007, 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 revenues outside the United States are transacted in U.S. dollars; accordingly the Company's revenues 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 its Chief Executive Officer and 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. For purposes of this section, the term *disclosure controls and procedures* means controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Act (15 U.S.C. 78a *et seq.*) is recorded, processed, summarized and reported within the time periods specified in the Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The Company's management evaluated, with the participation of its Chief Executive Officer and Chief Financial Officer, the effectiveness of the Company's disclosure controls and procedures for the quarter ended September 30, 2007. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures are effective to ensure that information it is required to disclose in reports that it files or submits under the Securities Exchange Act of 1934 is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure, and that such information is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

#### (b) *Changes in Internal Control over Financial Reporting.*

No change in the Company's internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the quarter ended September 30, 2007 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

The Company previously disclosed that the Securities and Exchange Commission ("SEC") and the United States Justice Department had initiated informal inquiries into the Company's stock option granting practices. The Company also disclosed that on September 5, 2006, it received an Information Document Request from the Internal Revenue Service ("IRS") concerning its stock option grants and grant practices. On October 1, 2007, the Company received notice from the SEC that the investigation concerning the Company's historical stock option grant practices had been completed and that no enforcement action was recommended. The Company has not received any further requests from the Department of Justice.

Certain current and former directors and officers of the Company have been named as defendants in two shareholder derivative actions filed in the United States District Court for the Northern District of California, which have been consolidated under the caption *In re Linear Technology Corporation Shareholder Derivative Litigation* (the "Federal Action"), in three consolidated

shareholder derivative actions filed in the Superior Court for Santa Clara County, California, also captioned *In re Linear Technology Corporation Shareholder Derivative Litigation* (the “California State Action”), and in a shareholder derivative action filed in Delaware Chancery Court, captioned *Weiss v. Swanson* (the “Delaware Action”). The Company has been named in each of these Actions as a nominal defendant against which no recovery is sought. The Company has engaged its outside counsel to represent it in the government inquiries and pending lawsuits.

Plaintiffs in the Federal Action allege that the individual defendants breached their fiduciary duties to the Company in connection with the alleged backdating of stock option grants during the period from 1995 through 2002, and that certain defendants were unjustly enriched. The Federal plaintiffs have also asserted derivative claims against the individual defendants based on alleged violations of Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”), and Rule 10b-5 promulgated thereunder. Plaintiffs seek to recover unspecified money damages, disgorgement of profits and benefits, equitable relief and attorneys’ fees and costs. The Company moved to dismiss the Federal Action on the ground that the plaintiffs had not made a pre-litigation demand on the Company’s Board of Directors and had not demonstrated that such a demand would have been futile; the individual defendants joined in that motion, and also moved to dismiss the complaint for failure to state a claim against each of them. On December 7, 2006, the District Court granted the Company’s motion; the Court did not address the individual defendants’ motion. Pursuant to the Court’s Order, plaintiffs filed an amended complaint on January 5, 2007. The amended complaint asserts derivative claims against the individual defendants for alleged violations of Sections 10(b), 14(a), and 20(a) of the Exchange Act, and Rules 10b-5 and 14a-9 promulgated thereunder. Following the filing of the amended complaint, the parties agreed to stay the Federal Action in favor of permitting the California State Action to proceed. The District Court entered an order staying the Federal Action on February 14, 2007.

Initially, plaintiffs in the California State Action asserted claims against the individual defendants for breach of fiduciary duty and aiding and abetting one another’s alleged breaches of duty in connection with the alleged backdating of stock option grants during the period from 1995 through 2002. Plaintiffs also alleged that certain defendants were unjustly enriched, that defendants wasted corporate assets, and that the officer defendants engaged in insider trading in violation of California law. Plaintiffs sought to recover unspecified money damages, disgorgement of profits and benefits, restitution, rescission of option contracts, imposition of a constructive trust over option contracts, and attorneys’ fees and costs. On October 2, 2006, the Company filed a motion to stay the California State Action in favor of the earlier-filed Federal Action. The defendant directors and officers joined in that motion. The individual defendants also demurred to the California State Action, on the basis that the operative complaint failed to state a cause of action as to each of them. Following the stay of the Federal Action, pursuant to the parties’ stipulation, the California State Court permitted the Company to withdraw the Motion to Stay Proceedings. Thereafter, the Company demurred to the complaint on the ground that plaintiffs had not demonstrated that a pre-suit demand would have been futile. The individual defendants joined in that demurrer. Following a hearing on July 13, 2007, the Court sustained the Company’s demurrer, and granted the plaintiffs leave to amend the complaint. The Court did not address the individual defendants’ demurrer.

On August 13, 2007, plaintiffs in the California State Action filed an amended complaint, asserting claims against the individual defendants for breach of fiduciary duty and aiding and abetting one another’s alleged breaches of duty in connection with the grant of allegedly “spring-loaded” and “bullet-dodged” stock options during the period from 1995 through 2005. The amended complaint also alleges that the individual defendants were unjustly enriched, and engaged in insider trading in violation of the California Corporations Code, and that the director defendants wasted corporate assets. The amended complaint seeks recovery from the individual defendants of unspecified damages, disgorgement of profits and benefits, restitution, rescission of option contracts and imposition of constructive trust over executory option contracts, in addition to attorneys’ fees and costs. On September 12, 2007, the Company filed a demurrer to the amended complaint on the ground that plaintiffs had failed to make a pre-suit demand or to demonstrate that demand would have been futile. The individual defendants filed a demurrer to the amended complaint on the grounds that it failed to state a cause of action as to each of them. The parties have stipulated to the stay of the California State Action pending the outcome of the hearing on the motion to dismiss in the previously-filed Delaware Action, which also asserted claims for breach of duty based on allegedly spring-loaded and bullet-dodged option grants.

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on October 12, 2007. The defendants' reply memorandum was filed on October 29, 2007, and a hearing on the Motion to Dismiss has been scheduled for November 28, 2007.

The Company reviewed its historical option-granting practices and option grants with the assistance of outside counsel and an independent forensic accounting firm. The primary scope of the review covered the periods calendar year 1995 through 2006. Based on the findings of the review, the Company has concluded that there is no need to restate any previously filed financial statements. The review found no evidence of fraud or misconduct of any kind in the Company's practices in granting of stock options and as mentioned above, on October 1, 2007, the Company received notice from the SEC that the investigation concerning the Company's historical stock option grant practices had been completed and that no enforcement action was recommended.

#### Item 1A. Risk Factors

A description of the risk factors associated with the Company's business is set forth below. In addition to the risk factors discussed below, see "Factors Affecting Future Operating Results" included in "Management's Discussion and Analysis" for further discussion of other risks and uncertainties that may affect the Company.

##### ***Downturns in the business cycle could adversely affect our revenues and profitability.***

The semiconductor market has historically been cyclical and subject to significant economic downturns at various times. The cyclical nature of the semiconductor industry may cause us to experience substantial period-to-period fluctuations in our results of operations. The growth rate of the global economy is one of the factors affecting demand for semiconductor components. Many factors could adversely affect regional or global economic growth including increased price inflation for goods, services or materials, rising interest rates in the United States and the rest of the world, a significant act of terrorism which disrupts global trade or consumer confidence, geopolitical tensions including war and civil unrest, reduced levels of economic activity, or disruptions of international transportation.

Typically, our ability to meet our revenue goals and projections is dependent to a large extent on the orders we receive from our customers within the period and by our ability to match inventory and current production mix with the product mix required to fulfill orders on hand and orders received within a period for delivery in that period. Because of this complexity in our business, no assurance can be given that we will achieve a match of inventory on hand, production units, and shippable orders sufficient to realize quarterly or annual revenue and net income goals.

##### ***Volatility in customer demand in the semiconductor industry could affect future levels of sales and profitability and limit our ability to predict such levels.***

Historically, we have maintained low lead times, which has enabled customers to place orders close to their true needs for product. In defining our financial goals and projections, we consider inventory on hand, backlog, production cycles and expected order patterns from customers. If our estimates in these areas become inaccurate, we may not be able to meet our revenue goals and projections. In addition, some customers require us to manufacture product and have it available for shipment, even though the customer is unwilling to make a binding commitment to purchase all, or even some, of the product. As a result, in any quarterly fiscal period we are subject to the risk of cancellation of orders leading to a fall-off of sales and backlog. Further, those orders may be for products that meet the customer's unique requirements so that those cancelled orders would, in addition, result in an inventory of unsaleable products, and thus potential inventory write-offs. We routinely estimate inventory reserves required for such products, but actual results may differ from these reserve estimates.

We generate revenue from thousands of customers worldwide and our revenues are diversified by end-market and geographical region. However, the loss of, or a significant reduction of purchases by a portion of our customer base could adversely affect our results of operations. We can lose a customer due to a change in the customer's design or purchasing practices. In addition, the timing of customers' inventory adjustments may adversely affect our results of operations.

##### ***We may be unsuccessful in developing and selling new products required to maintain or expand our business.***

The markets for our products depend on continued demand for our products in the communications, industrial, computer, high-end consumer and automotive end-markets. The semiconductor industry is characterized by rapid technological change, variations in manufacturing efficiencies of new products, and significant expenditures for capital equipment and product development. New product introductions are a critical factor for future sales growth and sustained profitability and can present significant business challenges because product development commitments and expenditures must be made well in advance of the related revenues. The success of a new product depends on a variety of factors including accurate forecasts of long-term market demand and future technological developments, timely and efficient completion of process design and development, timely and efficient implementation of manufacturing and assembly processes, product performance, quality and reliability of the product, and effective marketing, sales and service.

Although we believe that the high performance segment of the linear integrated circuit market is generally less affected by price erosion or by significant expenditures for capital equipment and product development than other semiconductor market sectors, future operating results may reflect substantial period-to-period fluctuations due to these or other factors.

***Our manufacturing operations may be interrupted or suffer yield problems.***

We rely on our internal manufacturing facilities located in California and Washington to fabricate most of our wafers, although we depend on outside silicon foundries for a small portion (less than 5%) of our wafer fabrication. We could be adversely affected in the event of a major earthquake, which could cause temporary loss of capacity, loss of raw materials, and damage to manufacturing equipment. Additionally, we rely on our internal and external assembly and testing facilities located in Singapore and Malaysia. We are subject to economic and political risks inherent to international operations, including changes in local governmental policies, currency fluctuations, transportation delays and the imposition of export controls or increased import tariffs. We could be adversely affected if any such changes are applicable to our foreign operations.

Our manufacturing yields are a function of product design and process technology, both of which are developed by us. The manufacture and design of integrated circuits is highly complex. We may experience manufacturing problems in achieving acceptable yields or experience product delivery delays in the future as a result of, among other things, capacity constraints, equipment malfunctioning, construction delays, upgrading or expanding existing facilities or changing our process technologies, any of which could result in a loss of future revenues or increases in fixed costs. To the extent we do not achieve acceptable manufacturing yields or there are delays in wafer fabrication, our results of operations could be adversely affected. In addition, operating expenses related to increases in production capacity may adversely affect our operating results if revenues do not increase proportionately.

***Our dependence on third party foundries and other manufacturing subcontractors may cause delays beyond our control in delivering our products to our customers.***

A portion of our wafers (approximately 20%) are processed offshore by independent assembly subcontractors located in Malaysia and Thailand. These subcontractors separate wafers into individual circuits and assemble them into various finished package types. Reliability problems experienced by our assemblers could cause problems in delivery and quality, resulting in potential product liability to us. We could also be adversely affected by political disorders, labor disruptions, and natural disasters in these locations.

We are dependent on outside silicon foundries for a small portion (less than 5%) of our wafer fabrication. As a result, we cannot directly control delivery schedules for these products, which could lead to product shortages, quality assurance problems and increases in the cost of our products. We may experience delays in delivering our products to our customers. If these foundries are unable or unwilling to produce adequate supplies of processed wafers conforming to our quality standards, our business and relationships with our customers for the limited quantities of products produced by these foundries could be adversely affected. Finding alternate sources of supply or initiating internal wafer processing for these products may not be economically feasible. In addition, the manufacture of our products is a highly complex and precise process, requiring production in a highly controlled environment. Changes in manufacturing processes or the inadvertent use of defective or contaminated materials by a third party foundry could adversely affect the foundry's ability to achieve acceptable manufacturing yields and product reliability.

***We rely on third party suppliers for materials, supplies, and subcontract services that may not have adequate capacity to meet our product delivery requirements.***

The semiconductor industry has experienced a very large expansion of fabrication capacity and production worldwide over time. As a result of increasing demand from semiconductor and other manufacturers, availability of certain basic materials and supplies, such as chemicals, gases, polysilicon, silicon wafers, ultra-pure metals, lead frames and molding compounds, and of subcontract services, like epitaxial growth, ion implantation and assembly of integrated circuits into packages, have from time to time, over the past several years, been in short supply and could come into short supply again if overall industry demand continues to increase in the future. In addition, from time to time natural disasters can lead to a shortage of some of the above materials due to disruption of the manufacturer's production. We do not have long-term agreements providing for all of these materials, supplies, and services, and shortages could occur as a result of capacity limitations or production constraints on suppliers that could have a materially adverse effect on our ability to achieve our planned production.

A number of our products use components that are purchased from third parties. Supplies of these components may not be sufficient to meet all customer requested delivery dates for products containing the components, which could adversely affect future sales and earnings. Additionally, significant fluctuations in the purchase price for these components could affect gross margins for the products involved. Suppliers could also discontinue the manufacture of such purchased products or could have quality problems that could affect our ability to meet customer commitments. In addition, suppliers of semiconductor manufacturing equipment are sometimes unable to deliver test and/or fabrication equipment to a schedule or equipment performance specification that meets our requirements. Delays in delivery of equipment needed for growth could adversely affect our ability to achieve our manufacturing and revenue plans in the future.

***We are exposed to business, economic, political and other risks through our significant worldwide operations.***

During fiscal year 2007, 68% of our revenues were derived from customers in international markets. Also, we have test and assembly facilities outside the United States in Singapore and Malaysia. Accordingly, we are subject to the economic and political risks inherent in international operations and their impact on the United States economy in general, including the risks associated with ongoing uncertainties and political and economic instability in many countries around the world as well as the economic disruption from acts of terrorism, and the response to them by the United States and its allies.

***We are a party to private litigation and governmental investigations related to our historical stock option granting practices, an unfavorable outcome in which could have a material adverse effect on our financial results for a particular period or the trading price for our securities.***

Several lawsuits have been filed against current and former directors and officers relating to our historical stock option practices. We are named as a nominal defendant in those lawsuits. These actions are in the preliminary stages, and their ultimate outcome could have a material adverse effect on our results of operations or cash flows for a particular period or the trading price for our securities. Litigation is time-consuming, expensive and disruptive to our normal business operations, and outcomes are difficult to predict. The defense of these lawsuits has resulted and will continue to result in significant legal expenditures and diversion of our management's time and attention from business operations. In addition, we have entered into indemnification agreements with our current and former directors and officers, under which we are required to indemnify those persons against expenses, including attorneys' fees, judgments, fines and settlements, payable by them in connection with this litigation, subject to applicable law. If we were required to pay any amounts to satisfy a judgment or in settlement of any of these claims, these amounts may not be covered by insurance.

As disclosed previously, we have also been the subject of informal investigations and inquiries by the Securities and Exchange Commission, the Department of Justice and the Internal Revenue Service. The SEC has informed us that its investigation concerning our historical stock option grant practices has been completed and that no enforcement action has been recommended. We have not been subsequently contacted by the DOJ. All agencies could seek additional information or documents from us in the future. We could also in the future become the subject of additional private or government actions regarding these matters.

For a further discussion on legal matters see "Legal Proceedings" in Part 2, Item 1 of this Form 10-Q.

***We may be unable to adequately protect our proprietary rights, which may impact our ability to compete effectively.***

Our success depends in part on our proprietary technology. While we attempt to protect our proprietary technology through patents, copyrights and trade secret protection, we believe that our success also depends on increasing our technological expertise, continuing our development of new products and providing comprehensive support and service to our customers. However, we may be unable to protect our technology in all instances, or our competitors may develop similar or more competitive technology independently. We currently hold a number of United States and foreign patents and pending patent applications. However, other parties may challenge or attempt to invalidate or circumvent any patents the United States or foreign governments issue to us or these governments may fail to issue patents for pending applications. In addition, the rights granted or anticipated under any of these patents or pending patent applications may be narrower than we expect or, in fact provide no competitive advantages. Furthermore, effective patent, trademark, copyright, maskwork and trade secret protection may be unavailable, limited or not applied for in certain foreign countries. We may incur significant legal costs to protect our intellectual property.

We also seek to protect our proprietary technology, including technology that may not be patented or patentable, in part by confidentiality agreements and, if applicable, inventors' rights agreements with our collaborators, advisors, employees and consultants. We cannot assure you that these agreements will always be undertaken or will not be breached or that we will have adequate remedies for any breach.

We have received, and may receive in the future, notices of claims of infringement and misappropriation of other parties' proprietary rights. In the event of an adverse decision in a patent, trademark, copyright, maskwork or trade secret action, we could be required to withdraw the product or products found to be infringing from the market or redesign products offered for sale or under development. Whether or not these infringement claims are successfully asserted, we would likely incur significant costs and diversion of our resources with respect to the defense of these claims. In the event of an adverse outcome in any litigation, we may be required to pay substantial damages, including enhanced damages for willful infringement, and incur significant attorneys' fees, as well as indemnify customers for damages they might suffer if the products they purchase from us infringe intellectual property rights of others. We could also be required to stop our manufacture, use, sale or importation of infringing products, expend significant resources to develop or acquire non-infringing technology, discontinue the use of some processes, or obtain licenses to intellectual property rights covering products and technology that we may, or have been found to, infringe or misappropriate such intellectual property rights.

***The transition to lead-free products may adversely affect our results of operations.***

Customers are requiring that we offer our products in lead-free packages. Governmental regulations in certain countries and customers' intention to produce products that are less harmful to the environment has resulted in a requirement from many of our customers to purchase integrated circuits that do not contain lead. We have responded by offering our products in lead-free versions. While the lead-free versions of our products are expected to be more friendly to the environment, the ultimate impact is uncertain. The transition to lead-free products may produce sudden changes in demand depending on the packaging method used, which may result in excess inventory of products packaged using traditional methods. This may have an adverse effect on our results of operations. In addition, the quality, cost and manufacturing yields of the lead free products may be less favorable compared to the products packaged using more traditional materials which may result in higher costs to us.

***Our products may contain defects that could affect our results of operations.***

Our products may contain undetected errors or defects. Such problems may cause delays in product introductions and shipments, result in increased costs and diversion of development resources, cause us to incur increased charges due to obsolete or unusable inventory, require design modifications, or decrease market acceptance or customer satisfaction with these products, which could result in product returns. In addition, we may not find defects or failures in our products until after commencement of commercial shipments, which may result in loss or delay in market acceptance and could significantly harm our operating results. Our current or potential customers also might seek to recover from us any losses resulting from defects or failures in our products; further, such claims might be significantly higher than the revenues and profits we receive from our products involved as we are usually a component supplier with limited value content relative to the value of a complete system or sub-system. Liability claims could require us to spend significant time and money in litigation or to pay significant damages for which we may have insufficient insurance coverage. Any of these claims, whether or not successful, could seriously damage our reputation and business.

***If we fail to attract and retain qualified personnel, our business may be harmed.***

Our performance is substantially dependent on the performance of our executive officers and key employees. The loss of the services of key officers, technical personnel or other key employees could harm the business. Our success depends on our ability to identify, hire, train, develop and retain highly qualified technical and managerial personnel. Failure to attract and retain the necessary technical and managerial personnel could harm us.

***We may not be able to compete successfully in markets within the semiconductor industry in the future.***

We compete in the high performance segment of the linear market. Our competitors include among others, Analog Devices, Inc., Intersil, Maxim Integrated Products, Inc., National Semiconductor Corporation and Texas Instruments, Inc. Competition among manufacturers of linear integrated circuits is intense, and certain of our competitors may have significantly greater financial, technical, manufacturing and marketing resources than us. The principal elements of competition include product performance, functional value, quality and reliability, technical service and support, price, diversity of product line and delivery capabilities. We believe we compete favorably with respect to these factors, although it may be at a disadvantage in comparison to larger companies with broader product lines and greater technical service and support capabilities.

***Environmental liabilities could force us to expend significant capital and incur substantial costs.***

Federal, state and local regulations impose various environmental controls on the storage, use, discharge and disposal of certain chemicals and gases used in semiconductor processing. Our facilities have been designed to comply with these regulations, and we believe that our activities conform to present environmental regulations. Increasing public attention has, however, been focused on the environmental impact of electronics manufacturing operations. While we to date have not experienced any materially adverse business effects from environmental regulations, there can be no assurance that changes in such regulations will not require us to acquire costly remediation equipment or to incur substantial expenses to comply with such regulations. Any failure by us to control the storage, use or disposal of, or adequately restrict the discharge of hazardous substances could subject us to significant liabilities.

***Our financial results may be adversely affected by increased tax rates and exposure to additional tax liabilities.***

As a global company, our effective tax rate is highly dependent upon the geographic composition of worldwide earnings and tax regulations governing each region. We are subject to income taxes in both the United States and various foreign jurisdictions, and significant judgment is required to determine worldwide tax liabilities. Our effective tax rate as well as the actual tax ultimately payable could be adversely affected by changes in the split of earnings between countries with differing statutory tax rates, in the valuation of deferred tax assets, in tax laws or by material audit assessments, which could affect our profitability. In addition, the amount of income taxes we pay is subject to ongoing audits in various jurisdictions, and a material assessment by a governing tax authority could affect our profitability.

***We are leveraged, and our debt obligations may affect our business, operating results and financial condition.***

In April 2007, we issued \$1.0 billion aggregate principal amount of our 3.00% Convertible Senior Notes due May 1, 2027 and \$700 million aggregate principal amount of our 3.125% Convertible Senior Notes due May 1, 2027 (collectively, the "Notes"). Debt service obligations arising from the Notes could adversely affect us in a number of ways, including by:

- limiting our ability to obtain in the future, if needed, financing for working capital, capital expenditures, debt service requirements or other corporate purposes;
- limiting our flexibility in implementing our business strategy and in planning for, or reacting to, changes in our business;
- placing us at a competitive disadvantage relative to any of our competitors who have lower levels of debt;
- decreasing our debt ratings and increasing our cost of borrowed funds;
- making us more vulnerable to a downturn in our business or the economy generally;
- subjecting us to the risk of being forced to refinance at higher interest rates these amounts when due; and
- requiring us to use a substantial portion of our cash to pay principal and interest on our debt instead of contributing those funds to other purposes such as working capital, capital expenditures or other corporate purposes.

***Our stock price may be volatile.***

The trading price of our common stock may be subject to wide fluctuations. Our stock price may fluctuate in response to a number of events and factors, such as quarterly variations in operating results, announcements of technological innovations or new products by us or our competitors, changes in financial estimates and recommendations by securities analysts, the operating and stock price performance of other companies that investors may deem comparable to us, the hedging of our common stock and other derivative transactions by third parties, and new reports relating to trends in our markets or general economic conditions. Additionally, lack of positive performance in our stock price may adversely affect our ability to retain key employees.

The stock market in general, and prices for companies in our industry in particular, has experienced extreme volatility that often has been unrelated to the operating performance of a particular company. These broad market and industry fluctuations may adversely affect the price of our common stock, regardless of our operating performance. As our Notes are convertible into shares of our common stock, volatility or depressed prices of our common stock could have a similar effect on the trading price of our Notes. In addition, to the extent we deliver common stock on conversion of the Notes, the ownership interests of our existing stockholders may be diluted. Sales in the public market of common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock, as could the anticipated conversion of the Notes.

***Our accelerated share repurchase transactions may affect the value of our common stock and the Notes.***

Concurrently with the pricing of the Notes offering, we entered into an accelerated share repurchase transaction with an affiliate of Credit Suisse Securities (USA) LLC, whom we refer to as the repurchase counterparty. In connection with establishing its initial hedge of this transaction, the repurchase counterparty or its affiliate entered into various derivative transactions with respect to our common stock and/or purchased shares of our common stock in secondary market transactions concurrently with or shortly after the pricing of the Notes. These activities could have had the effect of increasing, or preventing a decline in, the price of our common stock concurrently with or shortly after the pricing of the Notes. In addition, the repurchase counterparty or its affiliate purchased shares of our common stock, and is likely to modify its hedge position by entering into or unwinding various derivative transactions with respect to our common stock and/or by purchasing or selling our common stock in secondary market transactions, prior to the final settlement of the accelerated share repurchase transaction, which is expected to occur approximately nine months from the pricing date for the Notes.

The effect, if any, of any of these transactions and activities on the market prices of our common stock or Notes will depend in part on market conditions and cannot be ascertained at this time, but any of these activities could adversely affect the value of our common stock and the value of the Notes. Such event could also affect the amount of cash and/or number of shares of our common stock, if any, as well as the value of such common stock that noteholders may receive upon the conversion of the Notes and, under certain circumstances, their ability to convert the Notes.

***We may not have the ability to repurchase the Notes or to pay cash upon their conversion if and as required by the indentures governing the Notes.***

Holders of the Notes have the right to require us to repurchase, and we intend to repurchase, the Notes for cash on specified dates or upon the occurrence of a fundamental change. However, we may not have sufficient funds to repurchase the Notes in cash or to make the required repayment at such time or have the ability to arrange necessary financing on acceptable terms. In addition, upon conversion of the Notes we will be required to make cash payments to the holders of the Notes equal to the lesser of the principal amount of the Notes being converted and the conversion value of those Notes. Such payments could be significant, and we may not have sufficient funds to make them at such time.

Our failure to repurchase the Notes or convert the Notes into cash or a combination of cash and shares upon exercise of a holder's conversion right in accordance with the provisions of the indentures would constitute a default under the applicable indenture. In addition, a default under either indenture could lead to a default under existing and future agreements governing our indebtedness. If, due to a default, the repayment of the related indebtedness were to be accelerated after any applicable notice or grace periods, we may not have sufficient funds to repay such indebtedness and the Notes.

A fundamental change may also constitute an event of default under, or result in the acceleration of the maturity of, our then-existing indebtedness. In addition, our ability to repurchase the Notes in cash or make any other required payments may be limited by law or the terms of other agreements relating to our indebtedness outstanding at the time.

***The terms of the Notes and related provisions in the indentures subject noteholders to risks. Noteholders should be aware of the following risks, in addition to those described for holders of our common stock:***

- We are not restricted from taking actions or incurring additional debt (including secured debt) which may affect our ability to make payments under the Notes;
- The Notes are not secured by any of our assets or those of our subsidiaries and are effectively subordinated to any secured debt we may incur. In any liquidation, dissolution, bankruptcy or other similar proceeding, holders of our secured debt may assert rights against any assets securing such debt in order to receive full payment of their debt before those assets may be used to pay the holders of the Notes. In such an event, we may not have sufficient assets remaining to pay amounts due on any or all of the Notes. In addition, none of our subsidiaries have guaranteed our obligations under, or have any obligation to pay any amounts due on, the Notes. As a result, the Notes are effectively subordinated to all liabilities of our subsidiaries, including trade payables;
- The fundamental change provisions in the Notes and the indentures may not require us to offer to repurchase the Notes in the event of certain transactions. For example, any leveraged recapitalization, refinancing, restructuring, or acquisition initiated by us will generally not constitute a fundamental change requiring us to repurchase the Notes;
- The liquidity of the trading market in the Notes, and the market price quoted for these Notes, may be adversely affected by, among other things, changes in, or other factors affecting, the market prices of our common stock, changes in the overall market for debt securities, and prevailing interest rates;
- The conversion rates of the Notes may not adjust for certain events, such as a third-party tender or exchange offer or an issuance of our common stock for cash. In addition, adjustments in conversion rates may not adequately compensate noteholders for any lost value in the Notes as a result of a particular transaction;
- The Notes may not be rated or may receive a lower rating than anticipated, which may impact the market price of the Notes and our common stock. In addition, the sale of the Notes and the shares of common stock issuable upon conversion of the Notes depends upon the continued maintenance of a registration statement filed with the SEC covering the resale of the Notes, or an exemption from the registration requirements of the Securities Act and any applicable state securities laws; and,
- Noteholders are not entitled to any rights with respect to our common stock, but if they subsequently convert their Notes and receive common stock upon such conversion, they will be subject to all changes affecting the common stock;

***The accounting method for convertible debt securities with net share settlement features, like the Notes, may be subject to change.***

For the purpose of calculating diluted earnings per share, a convertible debt security providing for net share settlement of the conversion value and meeting specified requirements under Emerging Issues Task Force ("EITF"), Issue No. 00-19, "Accounting for

Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," is accounted for interest expense purposes similarly to non-convertible debt, with the stated coupon constituting interest expense and any shares issuable upon conversion of the security being accounted for under the treasury stock method. The effect of the treasury stock method is that the shares potentially issuable upon conversion of the Notes are not included in the calculation of our earnings per share, except to the extent that the conversion value of the Notes exceeds their principal amount, in which event the number of shares of our common stock necessary to settle the conversion are treated as having been issued for earnings per share purposes.

In August 2007, the Financial Accounting Standards Board ("FASB") exposed for comment FASB Staff Position ("FSP") APB 14-a, a clarification on the accounting for convertible debt instruments that may be settled in cash (including partial cash settlement) upon conversion. The FASB is considering a requirement to allocate a portion of the debt to the embedded conversion feature, thereby creating an original issue discount on the carrying value of the debt portion of the instrument. This original issue discount would subsequently be amortized as interest expense over the term of the instrument, resulting in an increase to the Company's reported interest expense. This could materially impact the Company's results of operations and earnings per share. The proposed FSP would be effective for fiscal years beginning after December 15, 2007.

***Our certificate of incorporation and by-laws include anti-takeover provisions that may enable our management to resist an unwelcome takeover attempt by a third party.***

Our organizational documents and Delaware law contain provisions that might discourage, delay or prevent a change in control of our company or a change in our management. Our board of directors may also choose to adopt further anti-takeover measures without stockholder approval. The existence and adoption of these provisions could adversely affect the voting power of holders of common stock and limit the price that investors might be willing to pay in the future for shares of our common stock.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**c) Stock Repurchases**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet be purchased Under the Plans or Programs <sup>(1)</sup></b>
Month #1 (July 2, 2007 – July 29, 2007)	7,733,998	(1)	7,733,998	18,335,750
Month #2 (July 30, 2007 – August 26, 2007)	219,031	\$35.98	219,031	18,116,719
Month #3 (August 27, 2007 – September 30, 2007)	-	-	-	-
<b>Total</b>	<b>7,953,029</b>	<b>\$ 35.98</b>	<b>7,953,029</b>	<b>18,116,719</b>

<sup>(1)</sup> On April 17, 2007 the Company's Board of Directors authorized a \$3.0 billion accelerated stock repurchase transaction ("ASR"). As part of the ASR, the Company entered into two \$1.5 billion confirmations totaling \$3.0 billion during the fourth quarter of fiscal 2007. Under these confirmations, the Company provided a financial institution with an up-front payment totaling \$3.0 billion. The number of shares of common stock that were delivered to the Company for the first confirmation were determined based on the daily volume weighted average price of the Company's common stock over an approximately three-month period that commenced shortly after the issuance of the Company's \$1.7 billion Convertible Senior Notes in April 2007. Under the terms of the first \$1.5 billion confirmation, the Company received 33.3 million shares of its common stock during the fourth quarter of fiscal year 2007. The first confirmation ended during the first quarter of fiscal year 2008 and the Company received an additional 7.7 million shares. Accordingly, under the first confirmation the Company received a total of 41.0 million shares at an average purchase price of \$36.57 per share. Under the terms of the second \$1.5 billion confirmation, the Company received 38.9 million shares of its common stock during the fourth quarter of fiscal year 2007. The exact number of shares for the second confirmation will be determined based on the daily volume weighted average price of the Company's common stock (subject to a per share floor price and cap price resulting in a purchase by the Company under that part of the ASR of no fewer than approximately 38.9 million shares of common stock and not more than approximately 42.5 million shares of common stock) over the subsequent approximately six-month period.

In addition, on July 25, 2006 the Company's Board of Directors authorized the Company to purchase up to 20.0 million shares of its outstanding common stock in the open market over a two year time period of which 18.3 million shares still remain for purchase over the next 9 month period.

**Item 3. Defaults Upon Senior Securities**

N/A

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

N/A

Item 5. Other Information

N/A

Item 6. Exhibits

<b>Exhibit Number</b>	<b>Description</b>
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

## 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 6, 2007

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

**CERTIFICATION 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**

**Principal Executive Officer**

I, Lothar Maier, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of Linear Technology Corporation;
- 2) Based on my knowledge, this 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 report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses, in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: November 6, 2007

/s/ Lothar Maier  
Lothar Maier  
Chief Executive Officer  
(Principal Executive Officer)

**CERTIFICATION 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**

**Principal Financial Officer and Principal Accounting Officer**

I, Paul Coghlan, certify that:

- 1) I have reviewed this Quarterly Report on Form 10-Q of Linear Technology Corporation;
- 2) Based on my knowledge, this 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 report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this 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 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-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses, in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

DATE: November 6, 2007

/s/ Paul Coghlan

Paul Coghlan

Vice President of Finance and Chief Financial  
Officer (Principal Financial Officer and Principal  
Accounting Officer)

**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**

I, Lothar Maier, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Linear Technology Corporation on Form 10-Q for the quarterly period ended September 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Linear Technology Corporation.

DATE: November 6, 2007

By: /s/ Lothar Maier

Name: Lothar Maier

Title: Chief Executive Officer

I, Paul Coghlan, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report of Linear Technology Corporation on Form 10-Q for the quarterly period ended September 30, 2007 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents in all material respects the financial condition and results of operations of Linear Technology Corporation.

DATE: November 6, 2007

By: /s/ Paul Coghlan

Name: Paul Coghlan

Title: Chief Financial Officer